EXHIBIT Y

US Equity Research
13 January 2017

Company	Rating	Price	Target
REITs - Prison			
CXW-NYSE	Buy	US$26.69	US$30.00↑
previous			*US$28.00*
GEO-NYSE	Buy	US$38.20	US$43.00↑
previous			*US$38.00*

Priced as of close of business 12 January 2017

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Industry Overview

2017 private prison outlook and primer: an attractive investment opportunity

As we approach Trump's inauguration, we see low risk to contract renewals and the overall private prison business model, driving a compelling investment opportunity. In our view, GEO and CXW are preparing to enter a sustained period of pro-private, tough-on-crime policies alongside comprehensive immigration reform. We believe the present shortage of ICE beds, in addition to pockets of capacity constraints and/or criminal justice reforms pushing for alternative corrections at the state level, create a material external growth opportunity not seen in recent years. We argue that while valuation may seem full relative to long-run averages, on NTM FFO multiples the prison REITs continue to trade at an average 3.9x discount to the overall REIT sector, despite a comparable growth profile, in-line leverage, and an outsized dividend yield (GEO at 6.8%, CXW 6.3%, REIT sector at 4.0%). As such, we believe the prison REITs offer an attractive investment profile as net contract increases seem likely to drive estimates higher. Key takeaways:

- **Private BOP operations largely sustainable.** We argue that BOP population trends are misleading given that the Fair Sentencing Act seems to be running its course with a general deceleration in the decay of populations in 2016. Furthermore, with private BOP prisons primarily made up of criminal aliens, we believe recent immigration trends and a new administration led by Jeff Sessions will elicit continued demand for these facilities. We see the removal of private contracts (other than CAR-16) unlikely during the Trump administration, regardless of the DoJ memo from last August.
- **We project another 6,600 beds to be contracted by ICE in 2017:** Looking at border apprehensions at the end of FY 2016 and factoring in recent contract awards, we estimate the remaining ICE opportunity is roughly 6,600 beds (and up to 18,000 beds with flexible, short-term contracts), which we believe is a reasonable projection without factoring in the Trump administration's immigration policy potential. We estimate that this could drive about $40M in EBITDA across the companies.
- **State-by-state capacity and reform analysis yields limited risk to GEO and CXW state operations.** We have explored population, capacity, and criminal justice reform for each state with REIT exposure and believe GEO and CXW are positioned tactically to handle respective state trends. Furthermore, we see pockets of growth across correctional, community, and a handful of idle facilities.

Raising GEO and CXW estimates. We are updating our models to now assume renewal of BOP contracts as they expire, with the exception of CAR-16 contracts, which we believe prudent given the near-term nature of the decision and the fact that the procurement size of the re-bid remains at 3,600 beds. As we go into great detail throughout our piece, we believe the remaining beds are less at risk given the administration change, the criminal alien focus of private facilities, and an analysis of fundamentals.

Raising PTs. As a result of these estimate changes, we reiterate BUY ratings on CXW and GEO and raise our PTs $2 to $30 for CXW and $5 to 43 for GEO. On 2017E, our GEO PT implies a 13.2x AFFO multiple while our CXW PT implies 14.4x; we believe both are reasonable in light of the current private prison environment. We prefer GEO for the higher dividend yield, a more diversified model, and less exposure to Prop 57.

For important information, please see the Important Disclosures beginning on page 62 of this document.

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2017 prison outlook and primer: an attractive investment opportunity

Today, the private sector has expanded into roughly 8% of the US prison system, with over 75% of the sector dominated by the two public prison REITs, The Geo Group (GEO : NYSE) and CoreCivic (CXW : NYSE). In short, we believe the private prison industry is one of long-term, perpetual growth given the inherently defensive fundamentals coupled with a growingly attractive external growth proposition.

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Our favorable view on the private prison industry is driven by the following:

- **Fundamentals fared well during an anti-private administration.** Despite negative total incarcerations within state and federal prisons and the risk of sentencing reform reducing prison populations, private prisons maintained stability during an anti-private regime.
- **New Attorney General likely to stabilize if not reverse trends.** With Jeff Sessions, a known frugal conservative who is tough on crime and heavily opposes illegal immigration, we believe convictions may rise as a result of firmer laws and the detention of more criminal aliens, supporting USMS and BOP business.
- **Present BOP operations seem sustainable, but we remain cautious on CAR-16.** We argue that population trends are misleading given that the Fair Sentencing Act seems to be running its course and that nearly all private BOP facilities house criminal aliens, a population we believe is stable to increasing, and might increase further during the Trump administration.

Private prisons, as noted by BOP and some state budgets, continue to be materially cheaper than their public counterparts.

- **Pro-privatization.** The Trump administration has been public about pro-privatization, and we don't see any reason why this shouldn't carry over into the prison space, especially in an environment where balancing the budget is as critical as ever.
- **Private prisons cheaper.** Private prisons, as noted by BOP and some state budgets, continue to be materially cheaper than their public counterparts. Furthermore, there are over 200,000 public prison beds that are over 75 years old, and in many cases facilities have become antiquated and inefficient.

We see a sizeable growth opportunity given ICE fundamentals at present and potential legislation that new DHS head John Kelly would be required to uphold, which we estimate could result in 6,400 additional beds

- **ICE represents the greatest external growth opportunity in 2017.** We see a sizeable growth opportunity given ICE fundamentals at present and potential legislation that new DHS head John Kelly would be required to uphold, which we estimate could result in 6,400 additional beds and up to 18,000 beds on a bull case scenario.
- **State fundamentals favorable for present and future private operations.** Our detailed state-by-state analysis has led us to conclude that both GEO and CXW are generally positioned prudently given each state's respective criminal justice reform and population trends.
- **Valuation fair historically, but still heavily discounted relative to REIT peers.** Currently, on NTM FFO multiples, CXW trades at a 4.1x discount while GEO trades at a 3.6x discount to the overall REIT sector. Yet for all of the reasons previously mentioned, we believe this is unfair. Furthermore, we believe dividends are well covered and outsized (GEO at 6.8% yield, CXW at 6.3%), and leverage is comparable to REIT peers which are generally in the 4-6x Net Debt to Adj. EBITDA range (CXW at 3.5x, while GEO is at 5.9x before adjusting for Ravenhall debt, 4.6x after).

With this background, we reiterate our BUY-rating for GEO and raise our year-end price target by $5 to $43, and also reiterate our BUY rating for CXW and raise our year-end price target $2 to $30.

Exposure listing and catalyst timeline

Figure 1: GEO and CXW exposure by % of revenue and EBITDA (3Q16)

	GEO		CXW	
	% of Rev	% of EBITDA	% of Rev	% of EBITDA
ICE	**18.3%**	**22.2%**	**23.2%**	**25.2%**
BOP	**13.8%**	**16.6%**	**9.2%**	**9.9%**
USMS	**10.2%**	**12.1%**	**18.2%**	**19.8%**
International	**7.2%**	**2.7%**	**-**	**-**
Electronic Monitoring	**7.9%**	**13.2%**	**-**	**-**
States:	**42.7%**	**33.2%**	**49.4%**	**45.1%**
Alabama	0.0%	0.0%	0.0%	0.0%
Alaska	1.0%	1.6%	0.0%	0.0%
Arizona	5.7%	2.1%	1.8%	1.9%
California	3.7%	5.3%	9.5%	9.8%
Colorado	0.1%	0.0%	3.6%	4.1%
Florida	6.7%	2.5%	1.0%	0.4%
Georgia	2.5%	3.1%	7.1%	7.6%
Hawaii	0.0%	0.0%	2.4%	2.6%
Illinois	5.1%	2.3%	0.0%	0.0%
Indiana	2.8%	1.0%	0.6%	0.2%
Kentucky	0.0%	0.0%	0.0%	0.0%
Louisiana	1.3%	0.7%	0.0%	0.0%
Michigan-Vermont	0.6%	0.7%	0.0%	0.0%
Minnesota	0.0%	0.0%	0.0%	0.0%
Montana	0.0%	0.0%	0.4%	0.4%
New Jersey	0.9%	1.1%	0.0%	0.0%
New Mexico	3.4%	4.2%	0.4%	0.4%
Ohio	0.3%	0.1%	0.9%	1.0%
Oklahoma	4.5%	5.5%	7.5%	7.2%
Pennsylvania	1.9%	0.9%	1.2%	1.1%
Tennessee	0.0%	0.0%	8.5%	5.7%
Texas	1.1%	1.5%	4.5%	2.5%
Virginia	1.1%	0.4%	0.0%	0.0%
Wyoming	0.0%	0.0%	0.1%	0.1%

Source: Company reports, Canaccord Genuity estimates

Figure 2: Catalyst timeline for GEO and CXW

Competitors	Catalyst	Decision Date
CXW, GEO	CXW's Houston ICE Re-bid (1,000 beds)	1Q17
GEO	CAR-16 Procurement (3,500 - 7,300 beds)	1Q17
CXW	CAR-16 Procurement (1,400 beds)	1Q17
GEO	John Morony New South Wales (400 bed managed-only)	Feb 2017
GEO	Grafton New South Wales (1,700 beds)	Spring 2017
CXW, GEO	Hamilton County, TN (1,750 beds, incl. 1,000 bed re-bid of CXW)	1H17
GEO	Massachuetts BI Contract	?
CXW, GEO	Ohio Prison Sale	?

Source: Company reports, Canaccord Genuity estimates

Key Topic #1: While we are cautious on the BOP, private operations are likely sustainable

We believe BOP business should maintain status quo in 2017

Summary of Key Topic #1: At the BOP, we believe BOP business should maintain status quo in 2017 for the following reasons:

- We argue that population trends are misleading for two reasons:
  - We believe there is a deceleration in the decay of BOP populations as the Fair Sentencing Act runs its course.
  - Additionally, we don't believe the private sector should be necessarily connected with overall BOP populations in the first place.
- The private facilities primarily house criminal alien populations, which we don't believe the BOP is heavily involved in.
- We don't believe criminal alien populations are decreasing at present given overall immigration levels, especially headed into a Trump-led administration.
- With his pick of Attorney General Jeff Sessions set to take the reins, a known staunch, frugal conservative who is tough on crime and heavily opposes illegal immigration, we see continued need for private beds for these types of prisoners.
- Finally, we believe that private prison costs are materially cheaper than their public counterpart, something that the BOP's own budget has made clear.

The private facilities primarily house criminal alien populations, which we don't believe the BOP is heavily involved in

Total incarceration was down in 2015

The BJS publication "Prisoners in 20XX" series has received a lot of attention over the past few years, but we note a critical flaw inherent to the piece, including the most recent 2015 edition, is that the data presented represents a year lag. As such, the conclusions drawn from the publication paint a vastly different picture than we believe to be true as we begin 2017. Let there be no doubt, in 2015 overall populations were down, as the US held an estimated 1,526,800 prisoners in the custody of state and federal prisons, a decrease of roughly 35,500 prisoners or down over 2% vs. 2014. This was the second consecutive year of declining prisoner populations across the state and federal system, and represented an acceleration in prisoner decreases compared to 2014's decrease of 0.9%. While we don't have all State populations at year-end 2016, we expect overall populations to be down in 2016 once again led by decreases at the BOP. Yet, given some inherent BOP trends, we expect deceleration in that trend.

Figure 3: Total BOP and State populations

Year	Total Population	Growth
2004	1,497,100	1.9%
2005	1,525,910	1.9%
2006	1,568,674	2.8%
2007	1,596,835	1.8%
2008	1,608,282	0.7%
2009	1,615,487	0.4%
2010	1,613,803	-0.1%
2011	1,598,968	-0.9%
2012	1,570,397	-1.8%
2013	1,576,950	0.4%
2014	1,562,319	-0.9%
2015	1,526,792	-2.3%

Source: Bureau of Justice Statistics, Federal Bureau of Prisons

2016 saw a deceleration in the decay of BOP populations, which we believe signals that the Fair Sentencing Act may have run its course

Examining the BOP as the Fair Sentencing Act effects begin to slow

Of the 35,500 prisoners removed from 2014 to 2015 across the BOP and state combined, the BOP accounted for roughly 14,100, or about 40%. In 2016, BOP populations were down another estimated 3.5% or roughly 7,000 prisoners to 189,520 as of 12/29/16. This compares to 2015's decrease of 6.7%, suggesting a deceleration in the reach of the Obama Administration's Fair Sentencing Act, which reduced the disparity between the amount of crack cocaine and powder cocaine needed to trigger federal criminal penalties. As a result of this measure, BOP populations fell fairly substantially from their peak back in 2012, but the current trend suggests that much of the low-hanging fruit has already been picked. In short, we believe population decreases may continue to slow in the BOP's system as a result of the Fair Sentencing Act running its course and a new administration with a tough-on-crime background entering the fray.

Figure 4: BOP populations since 2010

Year	BOP Population	YOY % Change
2010	209,771	0.8%
2011	216,362	3.1%
2012	217,815	0.7%
2013	215,866	-0.9%
2014	210,567	-2.5%
2015	196,455	-6.7%
2016	189,520	-3.5%

Source: Bureau of Justice Statistics, Federal Bureau of Prisons

We estimate that the BOP is running at 116% capacity in 2016

Capacity allots BOP flexibility, but unsure if that flexibility permits criminal aliens

We note that the only risk we see at present to BOP renewals really permeates in the BOP's present capacity. We estimate 2016 capacity by taking the 2015 BJS published capacity at the BOP, removing the 1,129 beds for the non-renewal of CXW's Cibola County Correctional facility, and then using that as a base for the 2016 population. Doing this, we estimate the BOP's 2016 capacity is 116%, down 4% from 2015, and about 22% from the 2011 highs as the Fair Sentencing Act was kicking into gear. Similar to what we noted earlier, both BOP populations and capacity decreased in 2016, though we note that it was a deceleration in the rate of decay from 2015 levels.

Figure 5: Populations and capacity at the BOP, historically

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Custody (excl. Contracts)	201,280	208,118	209,771	216,362	217,815	215,866	210,567	196,455	189,520
Growth	-	*3%*	*1%*	*3%*	*1%*	*-1%*	*-2%*	*-7%*	*-4%*
Capacity	135%	136%	136%	138%	137%	133%	128%	120%	116%*

*2016 capacity is calculated using 2015 capacity, subtracting 1,129 beds from Cibola BOP nonrenewal, and using 2016 actual population
Source: Bureau of Justice Statistics, Bureau of Prisons

We estimate that private capacity at the BOP is 24,884 beds when including MTC's 2 managed-only facilities (CI Taft and CI Giles W. Dalby) that make up the balance of the 12 total contract BOP prisons (11 if you count Reeves I&II and Reeves III as one). As such, if we were to remove all of the private beds within the current offender population, the BOP would be at approximately 137% capacity, bumping up against the 137.5% capacity threshold that the Supreme Court mandated that no prison system could breach when ruling over California's capacity issue during the Public Safety Realignment back in 2011.

Figure 6: BOP capacity build-up

BOP Capacity Analysis	
2016 Custody	189,520
Estimated 2016 Capacity*	162,994
Estimated Capacity %	116.3%
Private Capacity	24,884
Adj. 2016 Capacity (ex private)	138,110
Adj. 2016E Capacity % (ex private)	**137.2%**

*2016 capacity is calculated using 2015 capacity, subtracting 1,129 beds from Cibola BOP nonrenewal, and using 2016 actual population
Source: Bureau of Prisons, Bureau of Justice Statistics, Canaccord Genuity estimates

The majority of BOP inmates in private prisons are sentenced criminal aliens.

We don't believe the BOP has many facilities made up of criminal aliens

However, we argue that this conclusion alone is misleading. As the BOP notes, the majority of BOP inmates in private prisons are sentenced criminal aliens who may be deported upon completion of their sentence. Looking at CXW's and GEO's exposure to the BOP, we note that essentially all of the prisoners housed at the two prison REIT's facilities are of the criminal alien variety. We don't believe the BOP has many facilities of this type, if any at all and there are often procedures that are needed in place that include population segregation, which make the transfer of prisoners from these private facilities to traditional federal criminal-holding public facilities more difficult.

Furthermore, we remind investors that the DOJ memo didn't touch on private community facilities. This is largely due to the fact that any criminal justice reforms that may materialize would likely include the use of alternative corrections and community facilities as a measure to reduce recidivism. As such, we continue to see no risk to those facilities. Below we list GEO's and CXW's revenue and EBITDA exposure to the BOP.

Figure 7: CXW and GEO exposure to BOP facilities as of 3Q16

BOP	Location	Beds	Type	Renewal Date	Est. % of total Revenue	Est. % of total EBITDA
GEO incl. BOP Community		**16,679**			**13.8%**	**16.6%**
Community Corrections	Various	1,346	Owned	Various	4.6%	7.2%
GEO excl. BOP Community		**15,333**			**9.2%**	**9.4%**
Reeves County Detention Complex	Pecos, Texas	3,763	Managed-only	Jan-17	1.0%	0.2%
Big Spring Correcitonal Center	Big Spring, Texas	3,509	Owned	Mar-17	2.5%	2.8%
Rivers Correctional Institution	Winton, North Carolina	1,450	Owned	Mar-17	1.0%	1.2%
D Ray James Correctional Facility	Folkston, Georgia	2,847	Owned	Sep-18	2.0%	2.3%
Great Plains Correctional Facility	Hinton, Oklahoma	1,940	Owned	May-20	1.4%	1.5%
Moshannon Valley Correctional Facility	Phillipsburg, Pennsylvania	1,824	Owned	Mar-21	1.3%	1.5%
CXW incl. BOP Community		**6,231**			**9.2%**	**9.9%**
Community Corrections	Various	599	Owned	Various	0.9%	1.3%
CXW excl. BOP Community		**5,632**			**8.3%**	**8.6%**
Eden Detention Center	Eden, Texas	1,422	Owned	Apr-17	2.1%	2.2%
Adams County Correctional Facility	Adams County, Mississippi	2,232	Owned	Jul-17	3.3%	3.4%
McRae Correctional Facility	McRae, Georgia	1,978	Owned	Nov-18	2.9%	3.0%

Source: Company reports, Canaccord Genuity estimates

Jeff Sessions: New Attorney General that should at minimum maintain status quo

Back in August of 2016, previous Deputy Attorney General Sally Yates put a memorandum in place that shocked the prison REIT universe, saying the department would look to reduce the scope or outright cancel private prison contracts as they came due for renewal. The stocks plummeted upon the

announcement. A lot has occurred since that memo was put into action at the BOP level, notably and in order:

- 9/30 - GEO's D. Ray James BOP facility was renewed for 2 years
- 11/8 – Trump elected
- 11/15 – CXW's McRae BOP facility was renewed for 2 years
- 1/10 – Jeff Sessions has confirmation hearing for Attorney General position

Jeff Sessions is often considered one of the most conservative members of the US Senate

Plenty of attention has now fallen onto this man who received little fanfare previously. Trump picked Jeff Sessions to be the new Attorney General, a position that oversees the DOJ and ultimately the BOP as well. Here's what we know about Jeff Sessions via both his political history as well as his confirmation hearing.

- **Staunch conservative from the south.** Sessions is a Senator, a US Attorney, a Republican, and often considered one of the most conservative members of the US Senate.
- **Frugal.** Sessions was raised on a Depression mentality when it comes to frugality, and his record of thriftiness extends to both his career and his personal life. We believe jurisdictions' consideration of costs are a critical factor in the decision to move forward with private solutions. We believe there is plenty of support in this regard for private facilities screening cheaper at both the BOP and state level.
- **Helped pass Fair Sentencing Act 2010.** As mentioned previously, the Fair Sentencing Act was a primary driver of lowered BOP populations over the past few years. Sessions helped draft and pass this measure.
- **Opposed bipartisan efforts to reduce federal sentences for nonviolent crimes.** Sessions was one of the primary defectors from Republican bipartisan agreement that voted for a federal bill that would reduce federal prison sentences for nonviolent crimes. Despite revisions, Sessions argued that federal drug sentencing laws had already become too relaxed, and refused to get behind it. As AG, Sessions could continue to stall congressional efforts to pass this legislation by publicly opposing them, encouraging senators to vote against, or ultimately asking the president to veto them or withhold support. Furthermore, Sessions has a history of being strict on drug-related crimes and could direct prosecutors to enforce those crimes more heavily.
- **Staunch opponent of illegal immigration.** In essentially every piece of legislation that involved immigration reform that came before the Senate, Sessions has been in strong opposition. He was vocal on this during his confirmation hearing as well. BOP private prisons primarily hold criminal illegal immigrants, which could provide support for the private operators as CAR rebids materialize.
- **Seems to support alternative corrections.** In 2008, Sessions voted for the Second Chance Act, authorizing $360M over two years to fund state and local community programs for ex-prisoners. Furthermore, at a November 2015 hearing on the Sentencing Reform and Corrections Act (SRCA), Sessions supported vocational training programs for prisoners, but expressed doubt about other rehabilitation programs.

Sessions helped pass the Fair Sentencing Act, but he opposed bipartisan efforts for federal sentencing reform

Sessions could continue to stall congressional efforts to pass this legislation by publicly opposing them, encouraging senators to vote against, or ultimately asking the president to veto them or withhold support.

Upon his appointment as the new AG, Sessions would be fully equipped to dispose of the memo that induces risk to the REITs' BOP segment. Furthermore, his views on drug reform, illegal immigration, and frugality lead us to believe that Sessions will support the continued use of private prisons as they come due for renewal.

Putting it all together, and support for the cost savings of private prisons

The last piece of the puzzle which always draws considerable skepticism from media outlets is the cost of private prisons. As we have explored in the past, private prisons look to screen cheaper than their public counterparts, due to a combination of private prisons' newer, more efficient facilities, less pension payments and benefits

to correctional officers, and the two prison REITs ability to manage the properties at lower cost. Many critics argue that private management leads to unsafe conditions for both prisoners and guards at these facilities, citing the recent OIG report (8/6/16, *https://oig.justice.gov/reports/2016/e1606.pdf*). We note that the report seemed politically motivated, as public prisons, as reported by Table 8 in Appendix 7 of the report notes that public BOP institutions have more deaths, more sexual misconduct, and more grievances, while private institutions have more contraband (arguably positive that they are finding it), more assaults by inmates, and more grievances filed. We don't believe overarching conclusions of safety can be drawn from such survey results. Furthermore, both GEO and CXW are subject to accreditation by the ACA at many of their facilities, with GEO achieving a year-end 2015 score of 99.8% for all accreditation eligible facilities, while CXW has achieved 100% accreditation at 92% of the eligible facilities.

The Federal Bureau of Prisons budget spells out per diems, and private operators were 17% cheaper over the past 7 years, and 22% cheaper during 2014 and 2015

If conditions are then considered fairly similar across public and private BOP facilities, then cost should become a more critical factor, especially given that Jeff Sessions is a known budget hawk. The Federal Bureau of Prisons releases their budgets each year, and within the budget, they spell out per diems separately for privately-operated facilities vs. all other types of BOP facilities. We believe the private BOP facilities are most comparable to medium security prisons, and by comparison, private facilities have averaged costs that are 17% cheaper over the past 7 years, and 22% cheaper during 2014 and 2015.

Figure 8: Total daily cost of BOP beds for federal government ($)

Total Daily Cost	2009	2010	2011	2012	2013	2014	2015	Average
Minimum Security	56.91	57.55	58.32	59.27	60.16	63.65	66.16	60.29
Low Security	65.81	69.53	73.57	74.22	75.03	77.88	80.20	73.75
Medium Security	69.51	71.91	73.57	72.91	74.73	78.18	80.75	74.51
High Security	87.75	92.76	94.87	93.02	92.84	97.86	100.52	94.23
Detention Centers	84.79	89.99	93.12	96.26	101.81	108.08	116.73	98.68
Administrative	83.20	74.19	83.29	84.82	82.47	86.02	87.27	83.04
Federal Correctional Complexes	70.36	74.70	75.39	75.64	77.62	81.14	86.38	77.32
Medical Referral Centers	149.93	153.34	158.80	157.74	161.52	170.28	184.74	162.34
Private Operated Institutions	60.29	64.13	62.88	62.85	59.83	60.71	63.35	62.01
Residential Reentry Centers	67.83	70.79	71.68	73.78	72.91	79.45	71.46	72.56
Contract State and Local Institutions	67.33	69.12	72.70	96.51	107.98	113.34	99.21	89.46
Total	74.66	77.49	79.16	79.31	80.25	83.89	87.61	80.34
Discount of Private over Medium Security	**-13%**	**-11%**	**-15%**	**-14%**	**-20%**	**-22%**	**-22%**	**-17%**

Source: Federal Bureau of Prisons

It's not just at the BOP level either. With the little information disclosed at a few state DOCs, we've noted that private facilities are materially cheaper as well. In 2015, Indiana offered Per Diems for state-owned and managed facilities vs. use of private facilities. Private costs were cheaper than public adult institutions by an average 11%. Similar to Indiana, Kentucky releases some cost studies of private vs. government owned and operated committees. Private Kentucky beds came out well cheaper throughout 2011 – 2013, by an average of 23% each year.

State budgets agree that private prisons are cheaper. Both Indiana and Kentucky have released budgets in the past displaying private operators were 11% and 23% cheaper, respectively.

Figure 9: Indiana Department of Corrections Per Diems ($)

Indiana Per Diems	2015
New Castle (GEO Managed)	$47.62
Heritage Trail (GEO Managed)	$44.08
Average of GEO	$45.85
Public Adult Institutions	$51.41
Discount of GEO over Public	-11%

Source: Indiana Department of Corrections, company reports

Figure 10: Kentucky Department of Corrections Per Diems ($)

KY DOC Adult Institutions	2011	2012	2013
Blackburn Corr. Complex	$56.01	$52.94	$59.49
Bell County Forestry Camp	$40.32	$39.55	$45.68
Eastern KY Corr. Complex	$46.11	$44.96	$46.61
Green River Correctional Complex	$52.02	$51.32	$53.48
KY Correctional Inst. For Women	$79.24	$76.07	$77.29
KY State Penitentiary	$74.27	$73.14	$76.22
KY State Reformatory	$77.74	$81.02	$77.50
Luther Luckett Corr. Complex	$51.03	$51.52	$52.04
Little Sandy Corr. Complex	$48.76	$50.53	$52.25
Northpoint Training Center	$83.09	$82.16	$50.64
Roederer Correctional Complex	$53.78	$51.31	$54.93
Western KY Corr. Complex	$69.32	$67.15	$70.55
Total State Facility Average Cost	$60.02	$60.14	$59.72
Private Prisons			
Marion Adjustment Center	$47.21	$43.98	$46.11
Marion Medium	$50.07	$47.98	$47.98
Marion Minimum	$45.91	$43.77	$45.52
Otter Creek Corr. Complex	$44.26	$49.63	-
Private Prison Average	$45.67	$46.80	$46.11
Discount of Private vs. Public State Avg.	-24%	-22%	-23%

Source: Kentucky Department of Corrections

Key Topic #2: ICE: the robust underlying external growth opportunity for private operators in a Trump administration

DHS's recent review of private prisons resulted in a status-quo recommendation

We see a sizeable opportunity given ICE fundamentals at present and potential legislation that the Trump administration looks to enforce

Summary of Key Topic #2: In short, we are bullish on both the continued operation of current ICE contracts as well as the external growth opportunity at ICE given:

- DHS's recent review of private ICE operations was essentially to pursue status quo, merely suggesting additional oversight.
- Moreover, the committee deemed that not only were ICE facilities cheaper than their public counterparts, but also safer than county contracts. On top of that transition costs to an all-public system would be $5-6B, as reported by ICE.
- We believe Family Residential business is safe given current trends, a Trump administration, and lack of better alternatives.
- We believe Trump's choice for head of the DHS, John Kelly, will be measured in his approach to border security, and we don't expect overwhelming change from the present approach, despite Trump's campaign promises.
- With that being said, we still see a sizeable external growth opportunity given ICE fundamentals at present and potential legislation that Kelly would be required to uphold, which we estimate could result in 6,400 additional beds. On a bull case scenario, though unlikely, we could see as many as 18,000 beds via long term, flexible contracts.

Figure 11: GEO and CXW ICE facilities as of 3Q16

ICE	Location	Beds	Type	Renewal Date	Est. % of total Revenue	Est. % of total EBITDA
GEO incl. Family Detention		**11,856**			**18.3%**	**22.2%**
Karnes County Resiential Center	Karnes, TX	1,158	Owned	Dec-20	5.0%	7.1%
GEO excl. Family Detention		**10,698**			**13.3%**	**15.2%**
Alexandria Transfer Center	Alexandria, LA	400	Owned	Oct-16	0.5%	0.6%
LaSalle Detention Facility	Jena, LA	1,160	Owned	Oct-16	1.4%	1.6%
South Texas Detention Complex	Pearsall, TX	1,904	Owned	Nov-16	2.4%	2.7%
Joe Corley Detention Facility	Conroe, TX	759	Owned	Jan-17	0.9%	1.1%
Broward Transition Center	Deerfield Beach, FL	700	Owned	Jun-17	0.9%	1.0%
Aurora/ICE Processing center	Aurora, CO	766	Owned	Sep-17	1.0%	1.1%
Northwest Detention Center	Tacoma, WA	1,575	Owned	Sep-17	2.0%	2.2%
Mesa Verde Female CCF	Bakersfield, CA	400	Owned	Feb-20	0.5%	0.6%
Pine Prarie Correctional Center	Pine Prairie, LA	1,094	Owned	Jun-20	1.4%	1.6%
Adelanto Detention Facility	Adelanto, CA	1,940	Owned	May-21	2.4%	2.8%
CXW incl. Family Detention		**10,333**			**23.2%**	**25.2%**
South Texas Family Residential	Dilley, TX	2,400	Owned	Sep-21	11.1%	14.0%
CXW excl. Family Detention		**7,933**			**12.1%**	**11.3%**
Houston Processing Center	Houston, TX	1,000	Owned	Apr-17	1.5%	1.4%
Otay Mesa Detention Center	San Diego, CA	1,482	Owned	Jun-17	2.3%	2.1%
Elizabeth Detention Center	Elizabeth, NJ	300	Owned	Aug-17	0.5%	0.4%
T. Don Hutto Residential Center	Taylor, TX	512	Owned	Nov-17	0.8%	0.7%
Laredo Processing Center	Laredo, TX	258	Owned	Jun-18	0.4%	0.4%
Cibola County Corrections Center	Milan, NM	1,129	Owned	Oct-21	1.7%	1.6%
Stewart Detention Center	Lumpkin, GA	1,752	Owned	Indef.	2.7%	2.5%
Eloy Detention Center	Eloy, AZ	1,500	Owned	Indef.	2.3%	2.1%

Source: Company reports, Canaccord Genuity estimates

The DHS review unveiled that average per diems for their few ICE-owned facilities was $184.35 versus $144.23 in privately-contracted facilities

We believe Family Detention contracts have been normalized, while fundamentals and a lack of alternative should keep both GEO and CXW facilities operational

DHS review a non-event as expected, but also showed private prisons cheaper

A little over three weeks after the DOJ announced the BOP memo, the DHS came out with a noncommittal announcement that the department would review the use of private prison contracts with ICE. We expected this to be a fairly hollow process given the sheer infrastructure and fundamental issues that tied ICE to the private operators.

The DHS concluded its review of ICE's private prison contracts, and given fiscal considerations and realistic capacity needs, the DHS's use of private for-profit detention centers will continue, with recommendation for greater oversight. The review also concluded that a move toward more county-contracted facilities would lower quality and safety. On top of that, the report discussed costs of public vs. private solutions, and noted that the ICE-owned operating model is generally more expensive than the other types of ICE detention. ICE reports that the average per diem for their few ICE-owned facilities is $184.35 versus $144.23 in a privately-contracted detention facility. Finally, the report stated that in order to move to a public-only system, one-time transition costs to ICE-owned and directed facilities would exceed $1.3 billion and could be as much as $5-6 billion, as reported by ICE.

Family detention contracts now normalized, but also less risky under Trump

Today, both GEO and CXW have recently renegotiated Family Detention contracts to levels ICE seems comfortable with. We've long argued that the risk of Family Residential going away was low considering that both GEO and CXW were operating within federally mandated guidelines for the amount of time they kept a family in detention. Furthermore, there just didn't seem to be a better answer for the government, with the only solution amounting to the public sector either building new facilities or buying out the private operators to supplant them. However, Hillary Clinton's tweets and campaign ran on the platform of ending Family Detention, and those claims were enough to incite fear across the Street. With Trump in office, those fears are now all but gone, at least for the next four years.

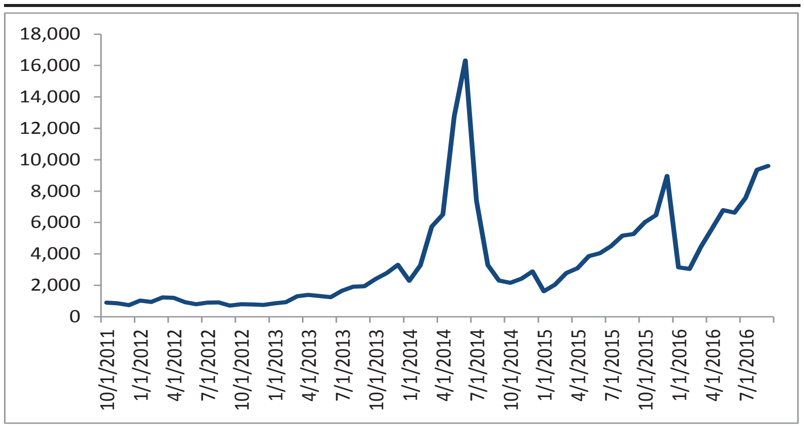
Given the continued influx of families and refugees seeking asylum, we don't see any alternatives to the practice, and, in addition to the private stock of traditional ICE processing centers, consider both Family Detention facilities safe in the near- and medium-terms. In fiscal year 2016, unaccompanied children and family units were up 49% and 95%, respectively, which represented a sharp turn from 2015 levels. We believe this will be a recurring trend in the current global economic and political environment.

Figure 12: Fiscal year apprehension summary

	FY13	FY14	FY15	FY16
Unaccompanied Children	38,759	68,541	39,970	**59,692**
Growth	-	*77%*	*-42%*	***49%***
Family units	14,855	68,445	39,838	**77,674**
Growth	-	*361%*	*-42%*	***95%***
Individuals	360,783	342,385	251,525	**271,504**
Growth	-	*-5%*	*-27%*	***8%***
Total	414,397	479,371	331,333	**408,870**
Growth	-	*16%*	*-31%*	***23%***

Source: US Customs and Border Protection

Figure 13: Family unit apprehensions at the Southwest border



Source: US Customs and Border Protection

Understanding the ICE opportunity

We have seen ICE sign approximately 2,600 beds since Jeh Johnson noted that apprehensions required more detention

Back in October 2016, DHS officials were looking to find 5,000 more prison and jail beds to handle the influx of undocumented immigrants being detained in the US. While we have already seen 3 contracts signed for roughly 2,600 beds since the announcement came out, we believe the opportunity might be even greater. Yet, in order to address the present external growth opportunity, we need to better understand fundamentals. At the end of FY 2016, many media outlets highlighted that there was an influx in illegal immigrants. Looking at Jeh Johnson's FY 2016 review, we note that FY 2016 averaged roughly 34k immigrants, a 7k or 23.3% increase over the average seen in FY 2015.

However, understanding the present need is more difficult

Wrapping our heads around the present apprehension rate is at best, very difficult. Using the US Customs and Border Protection apprehension statistics, we can attempt to project what the opportunity could look like in FY 2017 based on how the fiscal year 2016 ended on 9/30/16, and what the average annual growth rates are from month to month across our 5-year sample. Our calculation is as follows:

- We start with the 39,501 apprehensions recorded in September 2016. We adjust the FY16 September base number to reflect the average year-over-year growth from FY15 to FY16 to reflect the 23.3% annual average, rather than the 30.4% seen in September, to normalize for any outsized one-offs occurring in the base month (37,333 in September 2016 as adjusted).
- Using this figure, we then apply the month-to-month growth rate observed over our 5-year sample. Apprehensions are a seasonal metric, as weather plays a huge factor in the amount of border crossings. For example, from September to October, the average growth rate was 7.8%. Growing the 37,333 figure by 7.8% gives us roughly our October 2016 calculation (for projected FY 17).

Our projections show that apprehensions would reach 55,000 by May 2017 while average apprehension would approach 43k for FY 2017

Looking at our projections, we note that the lowest monthly apprehension would occur in January 2017 at 32,898, but that would escalate to over 55,000 apprehensions by May 2017. As such, average apprehension would approach 43k for FY 2017.

Figure 14: Apprehension projections for fiscal year 2017

	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	Avg.
FY2012	25,612	23,368	18,983	25,714	31,579	42,218	40,628	36,966	30,669	26,978	27,567	26,591	29,739
FY2013	28,929	27,636	23,243	26,921	35,042	47,293	48,212	43,856	34,436	33,230	33,797	31,802	34,533
FY2014	35,312	31,896	29,528	28,668	36,403	49,596	51,502	60,683	57,862	40,708	31,388	25,825	39,948
FY2015	26,450	24,641	25,019	21,514	24,376	29,791	29,750	31,576	29,303	28,388	30,239	30,286	27,611
FY2016	32,724	32,838	37,014	23,758	26,072	33,316	38,089	40,337	34,450	33,723	37,048	39,501	34,073
Average	30,854	28,076	26,757	25,315	30,694	40,443	41,636	42,684	37,344	32,605	32,008	28,626	33,087
Projected FY 2017	40,239	36,616	34,896	33,015	40,031	52,744	54,301	55,667	48,703	42,523	41,744	37,358	43,153
Avg. Growth FY16/FY15	23.7%	33.3%	47.9%	10.4%	7.0%	11.8%	28.0%	27.7%	17.6%	18.8%	22.5%	30.4%	23.3%

Source: US Customs and Border Protection, Canaccord Genuity estimates

In the DHS's Budget-in-Brief released back in February of 2016, the FY17 budget accounted for just 31,000 beds. Given Jeh Johnson's report and the calculation made here, the number of beds would represent a great shortfall, and is likely why Congress passed a continuing resolution in September 2016 to approve emergency funding proposed in a May 2016 appropriations bill. (https://www.congress.gov/114/crpt/srpt264/CRPT-114srpt264.pdf). The appropriations bill makes note of the unreasonable budget attempted to be passed by the President, saying "Unfortunately, the budget again proposes significant reduction to bed capacity, which are below even the level at which US Immigration and Customs Enforcement is operating."

Figure 15: ICE bed budgets vs. average annual apprehensions

	Budget	Average Apprehensions	Difference
FY2012	33,400	29,739	3,661
FY2013	34,000	34,533	-533
FY2014	31,800	39,948	-8,148
FY2015	30,539	27,611	2,928
FY2016	34,040	34,073	-33
Projected FY 2017	30,913	42,999	-12,086

Source: US Customs and Border Enforcement, Department of Homeland Security

The proposed presidential budget for FY2017 largely underestimated the need for immigration detention

Yet, as the DHS review stated, we believe the government is better off finding long-term solutions rather than contracting with local county jails and state facilities, where oversight is harder to manage and more importantly, where contracts typically come at greater price. Furthermore, we believe Trump's proposals made during his Gettysburg 100-Day Plan could intensify detention needs. Included were:

- Establishing a 2-year mandatory minimum federal prison sentence for illegally re-entering the US after a previous deportation.
- Establish a 5-year mandatory minimum for illegally re-entering for those with felony convictions, multiple misdeameanor convictions or two or more prior deportations.

We believe Trump's immigration policies will necessitate a larger budget for immigrant detention

This comes in addition to Trump's immigration platform (https://www.donaldjtrump.com/policies/immigration), which included:

- End catch-and-release programs, and instead detain and deport, which would result in a near- and medium-term boost in detention populations as illegal immigrants are processed.
- Triple the number of ICE agents.
- Building a wall along the southern border (given John Kelly's skepticism of the effectiveness during his confirmation and the capital needed to accomplish the project, we don't see this happening).

Given that we feel comfortable with a 43k baseline before Trump's policies kick in, we believe there are another 6,600 beds that ICE will need to find during FY 17 to avoid overcrowding

As such, we believe the need for more detention could move higher than the media has estimated, or our ~43k calculation that current trends suggest. As such, using our 43k average population as a low-end estimate and accounting for the roughly 2,400 beds already contracted on top of the 34,000 that ICE must maintain, we believe there are another 6,600 beds that ICE will need to find during FY17 to avoid overcrowding and deal with the present and future surge of illegal immigrants. With that being said, ICE dealt with a similar surge in 2014 by contracting out to local jails and governments, so it's not a guarantee that these beds will materialize if trends reverse and/or Trump's legislation falls flat. However, we also note that a push to move away from short-term contracts (given cost and oversight considerations) and replace them with flexible, long-term arrangements could result in an opportunity as big as 18,000 beds, though we see the full amount as unlikely.

Key Topic #3: Expect status quo for USMS

We see low risk to USMS business, but also don't expect growth

We continue to see minimal risk to the USMS business. This largely stems from the following:

We believe USMS business is low risk under the new administration, which looks to be tougher on crime

- The USMS owns no beds and operates no facilities on their own and instead uses contracts with local county jails and private facilities. In fact, the USMS would likely need to buy the private prisons, at least monetizing the assets, as roughly 40% of the existing infrastructure is private.
- Location is key for the USMS as the facilities need to be proximate to courthouses. Transportation and labor costs would increase materially should USMS decide to utilize facilities far from the courthouses they serve.

Furthermore, the logistics of USMS give the DOJ little flexibility in managing the current stock of USMS contracts

- It's important to note the type of prisoner that the USMS detains, which is typically far more transient in nature. They hold accused fugitives and felons from the date that they catch them to the result of their trial, whether it be acquittal (released) or incarceration (shipped to BOP prison or state facility depending on the sentence). As such, they have a lot less time to get involved in gangs and violent behavior during the stays, as has been the focus at the BOP level since the release of the inspector general's report of more violence at private facilities compared to their public counterparts.
- Accordingly, there's been a lot less negative press and fewer issues at privately run USMS facilities, so there's been less of a target on their back.

Given that the USMS needs the specific facilities owned and operated by GEO and CXW, if the USMS elected to discontinue use of private facilities, USMS would have no choice but to purchase the facilities from the REITs. We don't expect Congress to approve the expenditure of billions of dollars to acquire these facilities.

Figure 16: GEO and CXW USMS facilities as of 3Q16

ICE	Location	Beds	Type	Renewal Date	Est. % of total Revenue	Est. % of total EBITDA
GEO		**11,087**			**10.2%**	**12.1%**
Aurora Processing center	Aurora, CO	766	Owned	Oct-16	0.7%	0.9%
Western Region Detention Facility	San Diego, CA	770	Owned	Mar-17	0.7%	0.9%
Queens Private Detention Facility	Jamaica, NY	222	Owned	Dec-17	0.2%	0.3%
Robert A. Deyton Detention Facility	Lovejoy, GA	768	Owned	Feb-18	0.7%	0.9%
Rio Grande Detention Center	Laredo, TX	1,900	Owned	Sep-18	1.7%	2.2%
Brooks County Detention Center	Falfurrias, TX	652	Owned	Perpetual	0.6%	0.7%
Coastal Bend Dentention Center	Robtown, TX	1,176	Owned	Perpetual	1.1%	1.3%
East Hidalgo Detention Center	LaVilla, TX	1,300	Owned	Perpetual	1.2%	1.5%
Joe Corley Detention Facility	Conroe, TX	759	Owned	Perpetual	0.7%	0.9%
Karnes Correctional Center	Karnes City, TX	679	Owned	Perpetual	0.6%	0.8%
Val Verde Correctional Facility	Del Rio, TX	1,407	Owned	Perpetual	1.3%	1.6%
Central Texas Detention Facility	San Antonio, TX	688	Managed-Only	Perpetual	0.6%	0.2%
CXW		**9,503**			**18.2%**	**19.8%**
Leavenworth Detention Center	Leavenworth, KS	1,033	Owned	Dec-16	2.0%	2.2%
Northeast Ohio Correctional Center	Youngstown, OH	1,416	Owned	Dec-16	2.7%	2.9%
West Tennessee Detention Facility	Mason, TN	1,536	Owned	Jun-17	2.9%	3.2%
Webb County Detention Center	Lardo, TX	480	Owned	Nov-17	0.9%	1.0%
Central Arizona Detention Center	Florence, AZ	2,304	Owned	Sep-18	4.4%	4.8%
Florence Correctional Center	Florence, AZ	1,824	Owned	Sep-18	3.5%	3.8%
Torrance County Detention Facility	Estancia, NM	910	Owned	Indef.	1.7%	1.9%

Source: Company reports, Canaccord Genuity estimates

Key Topic #4: REITs positioned appropriately in most states

We believe CXW and GEO are both positioned prudently in each state given the states' respective criminal justice reforms and population trends

Summary of Key Topic #4: We believe GEO and CXW are both positioned prudently in each state given the states' respective criminal justice reforms and population trends. Please see the appendix for a detailed look at state-by-state reforms and population trends for states with REIT exposure. Our takeaways follow:

- We believe capacity constraints are still an issue in many states where the REITs operate, including Illinois, Kentucky, Louisiana, and Ohio, but also several states where they don't have a footprint just yet. We see these areas as external growth opportunities for correctional prisons.
- Given that criminal justice reform is occurring across the country, we view high capacity states with less vacancy as safer to the present operations than systems where vacant capacity is more marked.
- Where criminal justice reform is greatest, we believe the REITs are mostly positioned well by heavier investment in the community corrections businesses.
- We believe further investment in alternative corrections is critical, as most states continue to pursue reducing mandatory minimums and enhancing rehabilitation programs to reduce recidivism.
- Several state businesses do concern us, including the California out-of-state business for CXW given recent budget commentary surrounding Prop 57, and we continue to monitor the effects of criminal justice reform across the country.

Only California gives us material concern given the recent budget commentary surrounding Prop 57 and the malevolent implications on out-of-state beds

Factors we consider when looking at external growth opportunities

Our research of each state's criminal justice reform and capacity has yielded areas where we believe a material growth opportunity could arise. Factors include:

- Locations where capacity remains elevated (Illinois, Louisiana, Ohio, Oklahoma)
- Previous bills that failed as the election took center stage (Alabama)
- Known RFPs (Ohio, Tennessee)
- Recent reform that has passed (all states with alternative corrections-based criminal justice reform)

Figure 17: CXW and GEO state exposure (as of 3Q16) and state capacity

	GEO		CXW				Corrections External Growth Opportunity in '17?	Alternative External Growth Opportunity in '17?	Idle Growth Opportunity in '17?	Criminal Justice Reforms in '15 and '16?	Criminal Justice Remaining in '17 and '18?
	% of Rev	% of EBITDA	% of Rev	% of EBITDA	2015 Capacity	2016E Capacity*					
States/Totals:	**42.7%**	**33.2%**	**49.4%**	**45.1%**			**7**	**9**	**7**	**15**	**8**
Alabama	0.0%	0.0%	0.0%	0.0%	96%	92%	✓	-	✓ (GEO)	-	-
Alaska	1.0%	1.6%	0.0%	0.0%	98%	-	-	✓	✓ (CXW)	✓	-
Arizona	5.7%	2.1%	1.8%	1.9%	82%	82%	-	-	-	-	✓
California	3.7%	5.3%	9.5%	9.8%	133%	131%	-	✓	-	✓	-
Colorado	0.1%	0.0%	3.6%	4.1%	110%	107%	-	-	-	✓	-
Florida	6.7%	2.5%	1.0%	0.4%	94%	-	-	-	-	✓	-
Georgia	2.5%	3.1%	7.1%	7.6%	88%	89%	-	✓	-	✓	-
Hawaii	0.0%	0.0%	2.4%	2.6%	82%	85%	-	-	-	-	-
Illinois	5.1%	2.3%	0.0%	0.0%	145%	141%	✓	✓	-	✓	✓
Indiana	2.8%	1.0%	0.6%	0.2%	89%	87%	-	✓	-	✓	-
Kentucky	0.0%	0.0%	0.0%	0.0%	83%	99%	-	✓	✓ (CXW)	-	✓
Louisiana	1.3%	0.7%	0.0%	0.0%	102%	103%	✓	-	✓ (GEO)	-	✓
Michigan/Vermont	0.6%	0.7%	0.0%	0.0%	95%/90%	-	✓ / -	-	- / ✓ (GEO)	✓ / ✓	- / ✓
Minnesota	0.0%	0.0%	0.0%	0.0%	101%	105%	-	-	✓ (CXW)	-	✓
Montana	0.0%	0.0%	0.4%	0.4%	101%	100%	-	-	-	-	✓
New Jersey	0.9%	1.1%	0.0%	0.0%	75%	-	-	✓	-	✓	-
New Mexico	3.4%	4.2%	0.4%	0.4%	52%	-	-	-	-	-	-
Ohio	0.3%	0.1%	0.9%	1.0%	131%	131%	✓	-	-	-	-
Oklahoma	4.5%	5.5%	7.5%	7.2%	102%	102%	✓	✓	✓	✓	-
Pennsylvania	1.9%	0.9%	1.2%	1.1%	100%	101%	-	✓	-	✓	-
Tennessee	0.0%	0.0%	8.5%	5.7%	93%	91%	✓	-	-	✓	-
Texas	1.1%	1.5%	4.5%	2.5%	86%	-	-	-	-	✓	-
Virginia	1.1%	0.4%	0.0%	0.0%	103%	101%	-	-	-	-	✓
Wyoming	0.0%	0.0%	0.1%	0.1%	89%	-	-	-	-	✓	-

Source: Bureau of Justice Statistics, State DOC websites, company reports, Canaccord Genuity estimates

Sentencing reform, excluding California, is not expected to affect '17 operations

We believe investors overestimate the impact of regulatory reform on the private prison operators. The primary deterrent investors have regarding private prison REITs is the potential impact of disruption via sentencing reform. Namely, when an entire state's prison system becomes over capacity (or federal system, for that matter), there is risk that the governing body in charge of the jurisdiction may seek to reform legislation governing the severity of crimes. After doing considerable research on what has already come to fruition with regard to criminal justice reform, however, we note that a lot of the wood has already been chopped across the states where the REITs have exposure.

We estimate of the 25 states where REITs have exposure, 15 have already completed some sort of comprehensive criminal justice reform

We estimate that of the 25 states where REITs have exposure, 15 have already completed some sort of comprehensive criminal justice reform over the past two years, while we expect just 8 of the states to announce something in 2017 and 2018 given councils formed and bills proposed either in late 2016 or in January of this year. The remaining states without activity in one or either bucket don't seem to be pursuing reforms at this time. Of those 15 states that passed reform over the past two years, we are only concerned about California, and specifically out-of-state California (which we will discuss shortly), given how Gov. Brown framed the effects of Prop 57. Beyond that, we believe capacities are either high enough to continue supporting present private operations, or that exposures to those states are immaterial in light of upcoming reform.

Figure 18: Criminal justice reform outlook at the REIT-exposed states

	Criminal Justice Reforms in '15 and '16?	Criminal Justice Remaining in '17 and '18?
States/Totals:	**15**	**8**
Alabama	-	-
Alaska	✓	-
Arizona	-	✓
California	✓	-
Colorado	✓	-
Florida	✓	-
Georgia	✓	-
Hawaii	-	-
Illinois	✓	✓
Indiana	✓	-
Kentucky	-	✓
Louisiana	-	✓
Michigan/Vermont	✓ / ✓	- / ✓
Minnesota	-	✓
Montana	-	✓
New Jersey	✓	-
New Mexico	-	-
Ohio	-	-
Oklahoma	✓	-
Pennsylvania	✓	-
Tennessee	✓	-
Texas	✓	-
Virginia	-	✓
Wyoming	✓	-

Source: State DOC websites, company reports, Canaccord Genuity estimates

Of the 25 states where REITs don't have exposure, 9 states are operating above 100% capacity, and 6 of those states are controlled by a Republican majority

Exploring capacity outside of present REIT exposure

While we were somewhat less thorough on exploring criminal justice reform in the 25 states where the REITs don't have exposure, we still note that there may be opportunities for both CXW and GEO to expand into areas where they don't have an existing footprint. Looking at 2015 capacity for those 25 states with no REIT exposure, the BJS estimates that 9 states are operating above 100% capacity. Of

those 9 states, Republicans represent the majority at 6 State House and Senates, which we believe is more likely to be open to prison privatization.

Figure 19: States with no REIT exposure capacity and party affiliations

	2015 Capacity	State Senate	State House
Nebraska	125.4%	Republican	Republican
Massachusetts	122.8%	Democrat	Democrat
Delaware	117.0%	Democrat	Democrat
Iowa	112.4%	Republican	Republican
Idaho	104.9%	Republican	Republican
Washington	102.3%	Coalition	Democrat
Kansas	100.2%	Republican	Republican
Missouri	100.2%	Republican	Republican
Wisconsin	100.1%	Republican	Republican
New York	99.6%	Coalition	Democrat
North Dakota	99.4%	Republican	Republican
West Virginia	99.0%	Republican	Republican
New Hampshire	98.6%	Republican	Republican
South Dakota	97.8%	Republican	Republican
Oregon	97.7%	Democrat	Democrat
Arkansas	97.2%	Republican	Republican
Maryland	90.9%	Democrat	Democrat
Maine	88.4%	Republican	Democrat
South Carolina	88.3%	Republican	Republican
North Carolina	84.2%	Republican	Republican
Rhode Island	74.8%	Democrat	Democrat
Utah	65.0%	Republican	Republican
Mississippi	59.4%	Republican	Republican
Connecticut	NA	Coalition	Democrat
Nevada	NA	Democrat	Democrat

Source: Bureau of Justice Statistics

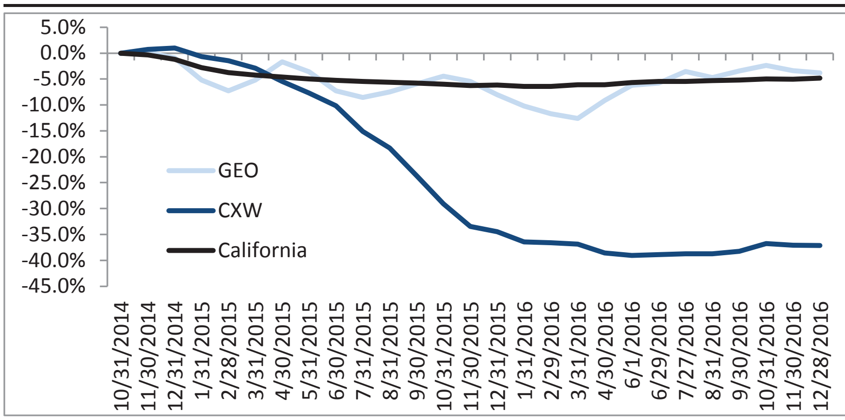
California accounted for approximately 6,500 (18% of the total 2014 to 2015 decrease) via the effects of Prop 47

Examining California

Referring back to our earlier section on the BOP, there were roughly 35,500 beds that were removed from 2014 to 2015 across the BOP and state systems. Excluding the BOP's share of 14,100 leaves roughly 21,400 prisoners. Of those 21,400 prisoners, California accounted for approximately 6,500 (18% of the total decrease) via the effects of Prop 47. The remaining ~14k were spread across 29 states, with no state seeing more than a 2,100-prisoner decrease.

In 2016, we note that California trends reversed, with prisoner levels rising by roughly 1,800, particularly as a result of California bringing out-of-state prisoners back in-state, while overall populations slowly rose as well.

Figure 20: Post Prop 47 California prison population declines



Source: California Department of Corrections & Rehabilitation

However, we remain cautious on California trends given the recently passed Prop 57 and Governor Brown's recently published budget report, which explicitly stated,

"Proposition 57 is estimated to reduce the average daily adult inmate population by approximately 2,000 in 2017/18, growing to an inmate reduction of approximately 9,500 in 2020/21. These figures are preliminary and subject to considerable uncertainty. The implementation of Proposition 57 and other population reduction measures mentioned above will allow the Department to remove all inmates from one of two remaining out-of-state facilities in 2017/18. Additionally, as the impact of Proposition 57 grows, the Department anticipates returning all 4,900 inmates from out-of-state facilities by 2020."

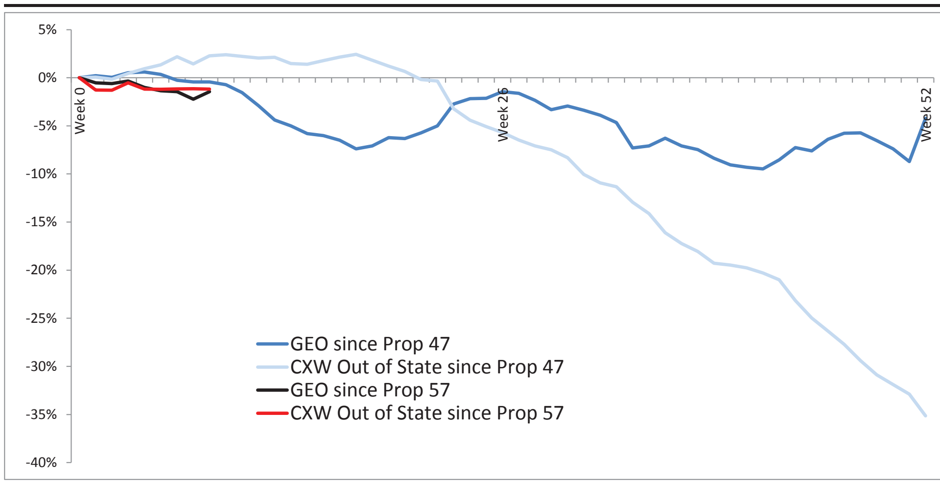
We believe the state of California's motivation for bringing back out-of-state prisoners is aligned with its own interests, given that:

- Motivations are similar to what they've been for the past 6 years.
- If there's capacity in-state, California would prefer to keep the jobs rather than outsourcing to Oklahoma, Arizona and Mississippi.
- Furthermore, they would rather keep prisoners closer to families, which human rights activists emphasize. Given that Mississippi is the farthest away and CXW's facility is roughly 2,700 beds compared to CXW's other California-contracting Arizona facility of 3,060 beds, we believe it will be the next to go offline, albeit over the course of the next two years.

We expect Prop 57 to behave similarly to Prop 47, with modest population decreases across both in-state and out-of-state populations to occur throughout the first 6 to 8 months after the legislation passed.

We expect Prop 57 to behave similarly to Prop 47, with modest population decreases across both in-state and out-of-state populations to occur throughout the first 6 to 8 months after the legislation passed. After this point, we expect California to bring back populations from out-of-state at an accelerated pace, which we believe will begin around the October 2017 time frame. As such, we don't see as material of an impact to 2017 estimates from Prop 57 as some may have feared.

Figure 21: Prop 47 vs. Prop 57 - populations since legislation enacted



Source: California Department of Corrections & Rehabilitation

Finally, with the California budget out, we believe there is opportunity to lease up a facility that may go dark from the legislation, and we believe CXW has time to find a partner, especially with ICE aggressively pursuing more capacity. We note that a similar occurrence happened when CXW's Oklahoma prison went offline after the facility's out-of-state contract was mothballed, and CXW later leased the facility out to the state of Oklahoma. While we don't see as many opportunities in-state for the Mississippi facility given that capacity seems to be in check per the BJS, we believe ICE could be very interested.

Valuation

Given previous discussion, we consider the private prison industry in 2017 to be extremely well positioned, largely due to:

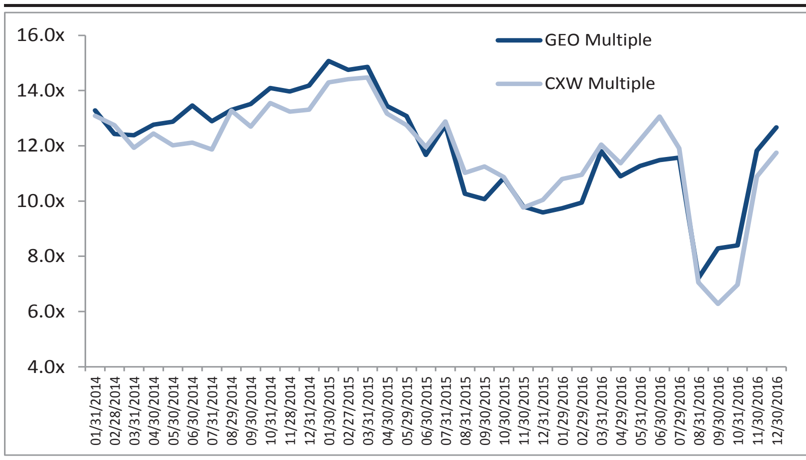
- A material external growth opportunity at ICE given current fundamentals and an administration that may accelerate the need for more capacity;
- Continued growth in community corrections for both CXW and GEO, as well as electronic monitoring and international opportunities specifically for GEO;
- An incrementally safer BOP and USMS business due to a tough-on-crime and pro-privatization administration;
- Criminal justice reform that seems to offer limited forward risk, both at the state and federal levels, as reforms may already be built into present populations;
- Outsized REIT dividends and relatively in-line leverage (CXW around 3.5x Net Debt to Adj. EBITDA while GEO is at 5.9x before adjusting for Ravenhall debt, 4.6x after) vs. the overall REIT sector which ranges from 4x-6x.

NTM FFO multiple still at a discount to overall REIT sector

As such, we believe the private prison REITs' current NTM FFO multiple discount to the broader REIT sector is unwarranted. We note that both companies are trading at premiums to their LRAs, which go back to early 2013. At present, CXW is trading at a 12.8x NTM FFO multiple vs. the LRA of 12.1x, while GEO is trading at a 13.3x NTM FFO multiple vs. the company's LRA of 12.3x.

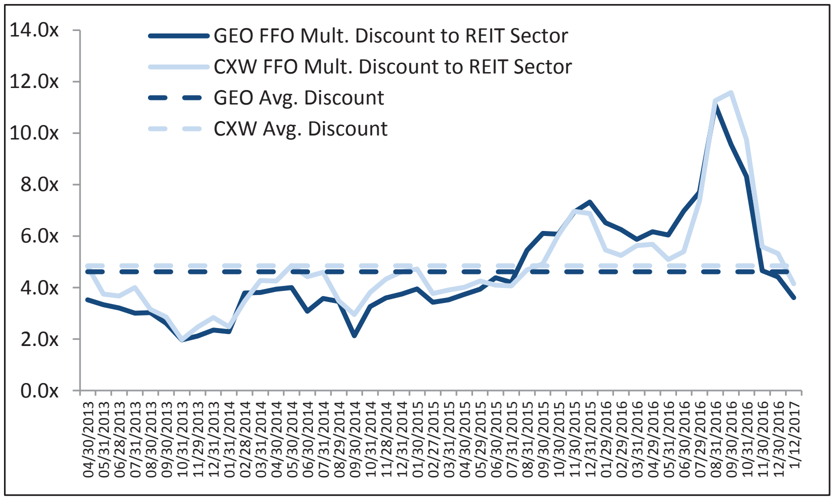
While they may look expensive from where the prison REITs have historically traded, we argue that both still look very attractive when compared to the overall REIT sector. Both GEO and CXW have traded at a discount to the REIT sector since inception, averaging a 4.8x discount for CXW and a 4.6x discount for GEO. Yet for all of the reasons previously mentioned, we believe this is materially outsized and unfair. Currently, both companies are trading about a turn inside of these averages, albeit still at a large discount to the overall REIT space, with CXW trading at a 4.1x discount while GEO trades at a 3.6x discount. Our $42 PT for GEO implies a 15.6x 2017 FFO multiple, or a 2.3x discount to the overall REIT sector at present pricing, while our $30 PT for CXW implies a 13.6x 2017 FFO multiple, or roughly a 3.3x discount to the overall REIT sector. As such, while we would argue that the prison REIT space has the characteristics to trade roughly in line with the overall REIT sectors, we believe the implied discounts highlight further upside to our price targets.

Figure 22: FFO multiples, historically (ending 1/12/17)



Source: SNL, FactSet, Canaccord Genuity estimates

Figure 23: FFO multiples, discounts to REIT sector (ending 1/12/17)



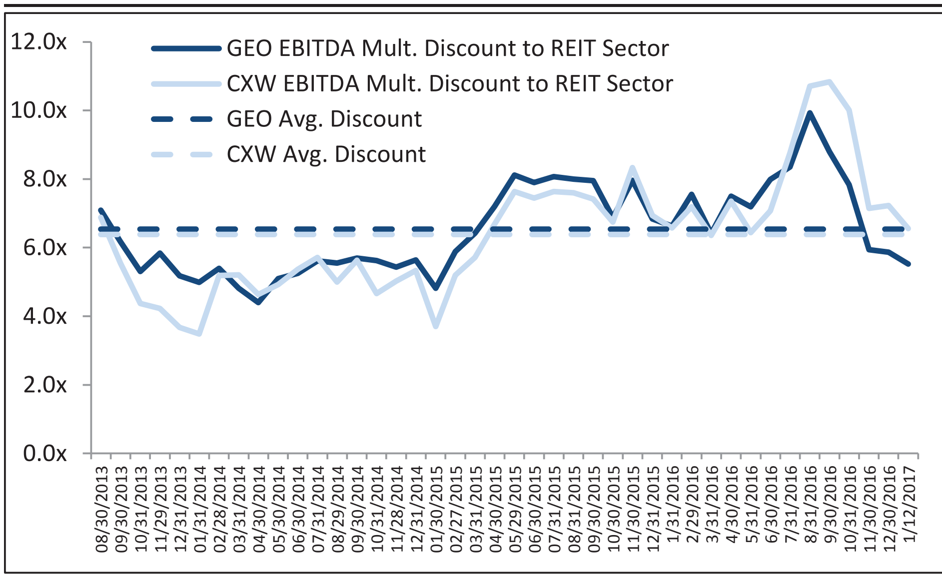
Source: SNL, FactSet, Canaccord Genuity estimates

EBITDA multiples also at an outsized discount to the overall REIT sector

We note that the picture is similar on EBITDA multiples. At present, CXW is trading at a 12.3x NTM consensus EBITDA multiple vs. the LRA of 12.3x, while GEO is trading at a 13.3x NTM EBITDA multiple vs. the company's LRA of 12.1x.

Once again, GEO looks about a turn expensive and CXW is now at its long-run EBITDA multiple. Yet, while they may look fully valued from where the prison REITs have historically traded, we argue that both still look very attractive when comparing to the overall REIT sector. Both GEO and CXW have traded at an EBITDA multiple discount to the REIT sector since inception, averaging a 6.3x discount for CXW and a 6.4x discount for GEO. Currently, both companies are trading at a sizeable discount, with CXW trading at a 6.4x discount while GEO trades at a 6.5x discount.

Figure 24: EBITDA multiples, discounts to REIT sector (ending 1/12/17)



Source: SNL, FactSet, Canaccord Genuity estimates

Prison REITs have been higher before

Prior to the buzz surrounding the election, the prison REITs had been performing quite well. In fact, looking back at March 2015, both REITs had hit stock price highs, with GEO at $45.19 on March 20 and CXW reaching a high of $42.10 on the same day.

Figure 25: Three-year stock price performance of GEO and CXW

Source: SNL

So we argue, what has really changed since then? GEO has only added or renewed contracts since then. The only slight negatives along GEO's history since 3/20/15 were that there was a modest renegotiation of the Karnes facility (but they also expanded it) and the D. Ray James facility was renewed at a slightly more modest rate. We believe these two events pale in comparison to the benefits they've gained from signing management contracts at Kingman, AZ, signing more ICE beds in Georgia, or the ICE beds at the Northwest Detention Center in Washington. Additionally, we feel GEO's outlook for new contract awards appears even stronger today than it did back then.

From CXW's perspective, we have to consider the sizeable EBITDA loss associated with the renegotiation of the STFRC contract. Given that approximately 8% of adjusted EBITDA was cut from the renegotiation of the STFRC contract and assuming that the company funded the contract with approximately 25% leverage (similar to what the company operated at in 2014), we could mathematically assume a 10.7% discount to the adjusted high of $42.10, resulting in a price of $37.61 after factoring in the lost EBITDA and leverage. Yet the stock still trades well under that today, with what we believe is a much brighter outlook than in years past.

Figure 26: Prison comparable companies

Ticker	Rating	Price Target	Price 1/12/17	TTM Total Rtn	Div Yield	16E FFO Payout	Recurring 2016E FFO* CG	Recurring 2016E FFO* Cons.	Recurring 2017E FFO* CG	Recurring 2017E FFO* Cons.	Recurring 2018E FFO* CG	Recurring 2018E FFO* Cons.	FFO* Growth (%) 2017E	FFO* Growth (%) 2018E	P/FFO* Multiple 2017E	P/FFO* Multiple 2018E	P/FFO* Multiple LR Avg
CXW	BUY	$30.00	$26.69	9%	6.3%	76%	$2.61	$2.58	$2.20	$2.09	$2.24	$1.83	-20%	2%	12.1x	11.9x	12.1x
GEO	BUY	$43.00	$38.20	52%	6.8%	94%	$2.94	$2.86	$2.75	$2.84	$2.80	$2.73	-4%	2%	13.9x	13.6x	12.3x
EDR	BUY	$49.00	$41.69	18%	3.6%	80%	$1.73	$1.74	$1.91	$1.95	$1.93	$2.14	13%	1%	21.9x	21.6x	18.6x
GOV			$19.90	55%	8.6%	77%		$2.33		$2.24		$2.18		-3%	8.9x	9.1x	12.7x
OFC			$30.65	47%	3.6%	52%		NA		$2.10		$2.23		6%	14.6x	13.8x	12.6x
WM			$69.80	35%	2.2%			$2.91		$3.15		$3.40		8%	22.2x	20.5x	16.7x
Weighted Avg.				**39%**	**3.4%**	**76%**									**19.5x**	**18.3x**	**15.6x**

Ticker	Rating	Debt + Pref/ Tot. MCap	Net Debt + Pref/ EBITDA	Diluted Market Cap (mm)	EV (mm)	2016E EBITDA CG	2016E EBITDA Cons.	2017E EBITDA CG	2017E EBITDA Cons.	2018E EBITDA CG	2018E EBITDA Cons.	EBITDA Growth (%) 2017E	EBITDA Growth (%) 2018E	EV/EBITDA Multiple 2017E	EV/EBITDA Multiple 2018E	EV/EBITDA Multiple LR Avg
CXW	BUY	31%	3.5x	$3,141	$4,538	$409	$450	$374	$382	$377	$370	-7%	1%	12.1x	12.0x	6.0x
GEO	BUY	46%	5.9x	$2,840	$5,245	$410	$398	$399	$382	$399	$376	-7%	0%	13.2x	13.1x	5.9x
EDR	BUY	27%	7.5x	$2,001	$2,728	$133	$139	$160	$168	$174	$201	26%	9%	17.1x	15.6x	21.9x
GOV		43%	5.9x	$1,398	$2,462		$172		$174		$184		6%	14.2x	13.4x	11.1x
OFC		42%	7.1x	$2,897	$4,952		$293		$291		$308		6%	17.0x	16.1x	917.6x
WM		23%	2.6x	$31,110	$40,302		$3,701		$3,897		$4,059		4%	10.3x	9.9x	NA
Weighted Avg.		**28%**	**3.7x**											**11.7x**	**11.3x**	**235.3x**

Source: SNL, FactSet, Canaccord Genuity estimates

The GEO Group (GEO : BUY, $43 PT)

Investment summary

CG vs. consensus estimates

		CG	Cons.	Var.
AFFO per share	4Q16	$0.96	$0.95	2%
	2016	$3.66	$3.66	0%
	2017	$3.49	$3.58	-2%
Adjusted EBITDA (M)	4Q16	$107	$106	1%
	2016	$410	$398	3%
	2017	$399	$382	4%

Source: SNL, FactSet, Canaccord Genuity estimates

What we like about GEO

- GEO pays out an attractive 6.8% dividend yield, which we believe is secure.
- GEO's diversified business model reduces the exposure to regulatory risk;
- We believe the privatization of the prison industry will continue to expand, which should lead to attractive external growth for GEO over the medium and long terms.
- We see this opportunity appearing primarily at ICE, which we believe has a material shortfall in capacity given current immigration fundamentals and the plans of the incumbent administration; and
- GEO trades at an NTM FFO multiple over 3.5x below the overall REIT sector, which we consider unfair given defensive fundamentals, a solid internal and external growth profile, an outsized dividend yield, and relatively in-line leverage relative to other REIT sectors.

Potential concerns

- Negative headline risk surrounding sentencing reform could negatively impact the stock's valuation;
- The DOJ has yet to reverse the decision to phase out private prisons at the BOP, which could result in GEO losing the company's BOP prison contracts as they come due for renewal between now and 2021;
- Any lost contracts and newly idle facilities would have a negative impact on cash flows; and
- Incarceration rates have plateaued as of late, which could limit the external growth opportunity.

Key assumptions and model sensitivity

	Bear	Base	Bull
2016 Revenue Growth	5.7%	**8.4%**	9.8%
2017 Revenue Growth	-15.2%	**-5.1%**	2.1%
Incremental Beds Announced	(1,000)	**0**	1,000
2016 Normalized FFO	$2.72	**$2.94**	$2.98
2017 Normalized FFO	$2.42	**$2.75**	$3.01
2016 Recurring FFO	$3.77	**$3.99**	$4.03
2017 Recurring FFO	$3.49	**$3.83**	$4.08
2016 GEO AFFO	$3.44	**$3.66**	$3.70
2017 GEO AFFO	$3.16	**$3.49**	$3.87
2016 CG AFFO	$3.28	**$3.50**	$3.54
2017 CG AFFO	$2.93	**$3.26**	$3.64
Discount Rate	11.00%	**8.50%**	8.00%
Valuation by Scenario	$32	**$43**	$49
Price Return	*-16%*	***13%***	*28%*
Implied P/AFFO Multiple at Valuation	*10.9x*	***13.2x***	*13.5x*

Source: Company reports, Canaccord Genuity estimates

Valuation

Our $43 year-end 2017 price target is based on our discounted cash flow analysis, which assumes an 8.5% cost of equity and 2% terminal growth. Our valuation implies a 13.2x 2017E AFFO multiple.

Investment risks

- Deterioration in per-diems and occupancy levels driven by increased levels of competitive supply or deteriorating demand would likely negatively impact valuation and investor sentiment.
- Secondary offerings are possible and often result in earnings dilution as REITs must distribute 90% of taxable income to shareholders by law.
- Expense pressure could cause NOI results to lag investor expectations.
- Development delays or cost overruns could materially impact near-term investor expectations.

GEO company description

The GEO Group, Inc. is a fully-integrated REIT specializing in the ownership, leasing and management of correctional, detention and re-entry facilities and the provision of community-based services and youth services in the United States, Australia, South Africa, the United Kingdom and Canada. As of December 31, 2015, GEO's worldwide operations included the management and/or ownership of approximately 87,000 beds at 104 correctional, detention and community based facilities, including idle facilities and projects under development, and also include the provision of community supervision services for more than 139,000 offenders and pre-trial defendants, including approximately 89,000 individuals through an array of technology products including radio frequency, GPS, and alcohol monitoring devices.

GEO balance sheet

Balance Sheet	2015	1Q16	2Q16	3Q16	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E
Assets											
Cash and cash equivalents-unrestricted	$59.6	$23.2	$38.9	$30.1	$45.1	$44.9	$24.8	$10.5	$92.6	$79.8	$79.6
Cash and cash equivalents-restricted	8.5	48.3	72.5	102.7	102.7	102.7	102.7	102.7	102.7	102.7	102.7
Notes and other current assets	370.2	373.9	326.3	374.9	376.3	376.3	346.7	324.8	321.3	316.0	316.0
Total Current Assets	**$438.3**	**$445.5**	**$437.6**	**$507.7**	**$524.1**	**$523.9**	**$474.1**	**$437.9**	**$516.5**	**$498.5**	**$498.3**
Gross PP&E	2,332.2	2,344.7	2,357.1	2,368.6	2,388.1	2,388.1	2,433.9	2,468.8	2,502.6	2,536.0	2,536.0
Land	105.2	115.8	116.5	116.6	116.6	116.6	116.6	116.6	116.6	116.6	116.6
Accumulated Depreciation	(521.0)	(540.8)	(560.0)	(577.2)	(606.1)	(606.1)	(634.9)	(663.8)	(693.0)	(722.4)	(722.4)
Net PP&E	1,916.4	1,919.6	1,913.7	1,908.0	1,898.6	1,898.6	1,915.6	1,921.6	1,926.1	1,930.2	1,930.2
Non-current restricted cash and investments	20.2	21.5	22.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5
Direct finance lease receivable	1.8	-	-	-	-	-	-	-	-	-	-
Non-current deferred income tax assets	7.4	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2
Intangible assets, net (including goodwill)	839.6	834.6	829.5	824.4	824.4	824.4	824.4	824.4	824.4	824.4	824.4
Other non-current assets	238.4	297.8	373.0	453.6	412.5	412.5	430.3	448.7	468.7	488.7	488.7
Total Assets	**$3,462.2**	**$3,543.0**	**$3,600.4**	**$3,742.3**	**$3,708.2**	**$3,708.1**	**$3,693.1**	**$3,681.3**	**$3,784.4**	**$3,790.4**	**$3,790.2**
Liabilities											
Accounts payable and accrued liabilities	278.6	274.6	288.9	288.9	289.6	289.6	264.5	247.6	241.4	234.3	234.3
Current liabilities of discontinued operations	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	**$278.6**	**$274.6**	**$288.9**	**$288.9**	**$289.6**	**$289.6**	**$264.5**	**$247.6**	**$241.4**	**$234.3**	**$234.3**
Debt											
Senior Credit Term Loan	292.5	291.8	291.0	290.3	290.3	290.3	290.3	290.3	290.3	290.3	290.3
Senior Credit Revolver	485.0	514.0	450.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0
5.125% Senior Notes	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0
5.875% Senior Notes	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0
6.625% Senior Notes	300.0	300.0	-	-	-	-	-	-	-	-	-
6% Senior Notes		-	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0
Non-Recourse Debt	206.6	292.9	374.4	525.9	575.9	575.9	595.9	615.9	635.9	655.9	655.9
Unamortized Discount on non-recourse debt	(17.7)	(21.1)	(21.7)	(21.3)	(21.3)	(21.3)	(21.3)	(21.3)	(21.3)	(21.3)	(21.3)
Capital lease obligations	9.9	8.4	8.1	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3
Other Debt	1.4	-	-	-	-	-	-	-	-	-	-
Less current portion of debt	-	-	-	-	-	-	-	-	-	-	-
New/Maturing Debt	-	-	-	-	-	-	(3.5)	(7.0)	89.5	86.1	86.1
Total Debt	**2,077.6**	**2,185.9**	**2,251.8**	**2,430.2**	**2,480.2**	**2,480.2**	**2,496.7**	**2,513.2**	**2,629.7**	**2,646.2**	**2,646.2**
Non-current deferred income tax liabilities	11.5	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	87.7	90.8	92.3	92.1	92.1	92.1	92.1	92.1	92.1	92.1	92.1
Deferred gain	-	-	-	-	-	-	-	-	-	-	-
Noncontrolling interest	0.1	0.1	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Shareholders' Equity											
Preferred Shares, Class B Series II Cumulative Redeemable	-	-	-	-	-	-	-	-	-	-	-
Cumulative redeemable Series H preferred stock at liquidation value	-	-	-	-	-	-	-	-	-	-	-
Less Treasury Shares at Cost	-	-	-	-	-	-	-	-	-	-	-
Common stock	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Additional paid-in capital	879.6	881.6	885.5	889.0	896.0	896.0	896.0	896.0	896.0	896.0	896.0
Distributions in excess of accumulated earnings	158.8	142.6	117.1	112.1	112.1	112.1	112.1	112.1	112.1	112.1	112.1
Accumulated other comprehensive loss, net	(32.4)	(33.3)	(35.9)	(70.6)	(162.5)	(162.6)	(169.0)	(180.5)	(187.7)	(191.0)	(191.2)
Retained Earnings	-	-	-	-	-	-	-	-	-	-	-
Total Shareholders' Equity	**$1,006.7**	**$991.6**	**$967.5**	**$931.2**	**$846.4**	**$846.2**	**$839.9**	**$828.4**	**$821.2**	**$817.8**	**$817.7**
Total Liabilities and Equity	**$3,462.2**	**$3,543.0**	**$3,600.4**	**$3,742.3**	**$3,708.2**	**$3,708.1**	**$3,693.1**	**$3,681.3**	**$3,784.4**	**$3,790.4**	**$3,790.2**

Source: Company reports, Canaccord Genuity estimates

GEO income statement – quarterly, with projections

Income Statement ($ in millions)	2015	1Q16	2Q16	3Q16	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E
Revenues											
Operating Revenues	1,843.3	510.2	548.4	554.4	556.5	2,169.4	501.6	475.1	475.1	467.3	1,919.0
Total Revenue	**1,843.3**	**510.2**	**548.4**	**554.4**	**556.5**	**2,169.4**	**501.6**	**475.1**	**475.1**	**467.3**	**1,919.0**
Y/Y Change	9.0%	19.4%	23.0%	18.0%	11.3%	17.7%	-1.7%	-13.4%	-14.3%	-16.0%	-11.5%
Expenses											
Operating Expenses	1,363.8	388.5	416.8	415.7	417.5	1,638.5	370.1	350.1	344.4	334.5	1,399.2
Property NOI Margin	*26.0%*	*23.8%*	*24.0%*	*25.0%*	*25.0%*	*24.5%*	*26.2%*	*26.3%*	*27.5%*	*28.4%*	*27.1%*
General and Administrative Expenses	137.0	34.1	36.9	37.5	36.7	145.2	37.2	35.5	35.7	34.4	142.8
% of Sales	7.4%	6.7%	6.7%	6.8%	6.6%	6.7%	7.4%	7.5%	7.5%	7.4%	7.4%
Other Expense	-	-	-	-	-	-	-	-	-	-	-
% of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Expenses	**1,500.8**	**422.6**	**453.7**	**453.1**	**454.3**	**1,783.7**	**407.4**	**385.7**	**380.1**	**368.9**	**1,542.0**
Consolidated EBITDA	**342.5**	**$88**	**$95**	**$101**	**$102**	**385.7**	**$94**	**$89**	**$95**	**$98**	**377.0**
Operating Cash Flow Margin	19%	17.2%	17.3%	18.3%	18.4%	18%	18.8%	18.8%	20.0%	21.1%	20%
Year-over-Year Growth	0.0	12.9%	18.5%	12.3%	7.8%	0.1	7.5%	-5.5%	-6.2%	-3.7%	(0.0)
Depreciation and Amortization	106.8	28.5	28.7	28.8	28.9	114.8	28.8	29.0	29.2	29.4	116.4
% of Sales	6%	5.6%	5.2%	5.2%	5.2%	5%	5.7%	6.1%	6.1%	6.3%	6%
Operating Income	**235.7**	**59.2**	**66.0**	**72.5**	**73.3**	**270.9**	**65.4**	**60.4**	**65.8**	**69.0**	**260.7**
Operating Margin	13%	11.6%	12.0%	13.1%	13.2%	12%	13.0%	12.7%	13.8%	14.8%	14%
Year-over-Year Growth		12.3%	23.8%	14.9%	9.9%		10.6%	-8.4%	-9.2%	-5.9%	
Interest Income	11.6	4.6	5.9	7.9	8.8	27.2	8.7	7.7	7.1	8.1	31.6
Interest Expense	(106.1)	(29.4)	(31.1)	(33.4)	(34.5)	(128.4)	(34.0)	(34.4)	(36.2)	(36.2)	(140.9)
Loss on Extinguishmment of Debt	-	-	(15.9)	-	-	(15.9)	-	-	-	-	-
PreTax Income	**141.2**	**34.4**	**24.9**	**47.0**	**47.6**	**153.8**	**40.1**	**33.7**	**36.7**	**40.9**	**151.4**
Equity in losses of unconsolidated real estate partnerships	5.5	1.1	2.1	1.7	1.7	6.6	1.6	1.5	1.6	1.6	6.3
Gain on sale of real estate	-	-	-	-	-	-	-	-	-	-	-
Provision for income taxes	(7.4)	(3.2)	(3.9)	(5.0)	(8.1)	(20.1)	(3.8)	(3.2)	(3.5)	(3.9)	(14.4)
Other	-	-	-	-	-	-	-	-	-	-	-
Income From Continuing Operations	**139.3**	**32.3**	**23.2**	**43.7**	**41.2**	**140.4**	**37.9**	**32.1**	**34.8**	**38.6**	**143.3**
Income from discontinued operations, net	-	-	-	-	-	-	-	-	-	-	-
Net Income	**139.3**	**32.3**	**23.2**	**43.7**	**41.2**	**140.4**	**37.9**	**32.1**	**34.8**	**38.6**	**143.3**
Minority interests	0.1	0.0	0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.2
	-	-	-	-	-	-	-	-	-	-	-
Net Income to GEO	**139.4**	**32.4**	**23.2**	**43.7**	**41.2**	**140.5**	**37.9**	**32.1**	**34.8**	**38.6**	**143.5**
Dividends to preferred stockholders	-	-	-	-	-	-	-	-	-	-	-
Allocation to participating securities	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Net Income to Common	**139.4**	**32.4**	**23.2**	**43.7**	**41.2**	**140.5**	**37.9**	**32.1**	**34.8**	**38.6**	**143.5**
Diluted Shares Outstanding	73.9	74.2	74.3	74.3	74.6	74.4	74.6	74.6	74.6	74.6	74.6
Net Income per Share	**$1.89**	**$0.44**	**$0.31**	**$0.59**	**$0.55**	**$1.89**	**$0.51**	**$0.43**	**$0.47**	**$0.52**	**$1.92**
Net Margin	7.6%	6.3%	4.2%	7.9%	7.4%	6.5%	7.6%	6.8%	7.3%	8.3%	7.5%
Year-over-Year Growth	-4.9%	11.9%	-18.4%	13.5%	-7.1%	0.2%	16.5%	37.7%	-20.6%	-6.3%	1.8%
Recurring Funds from Operations per Share	**$2.76**	**$0.66**	**$0.73**	**$0.79**	**$0.76**	**$2.94**	**$0.71**	**$0.64**	**$0.68**	**$0.73**	**$2.75**
Year-over-Year Growth	1.6%	9.6%	16.4%	7.4%	-4.7%	6.4%	8.7%	-12.9%	-15.0%	-4.1%	-6.4%

Source: Company reports, Canaccord Genuity estimates. A more detailed financial model, including balance sheet, income statement, and cash flow projections, if available, may be obtained by contacting your Canaccord Genuity Sales Person or the Authoring Analyst, whose contact information appears on the front page of this report.

GEO FFO reconciliation (in millions)

Funds From Operations (FFO)	2015	1Q16	2Q16	3Q16	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E
Basic Recurring Net Income	139.4	32.4	23.2	43.7	41.2	140.5	37.9	32.1	34.8	38.6	143.5
Depreciation and amortization	57.8	15.1	15.2	15.3	15.4	61.1	15.3	15.4	15.5	15.7	61.9
Gains not included in FFO, net of internal disposition costs	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
FFO	**197.2**	**47.5**	**38.4**	**59.1**	**56.6**	**201.6**	**53.2**	**47.5**	**50.4**	**54.3**	**205.4**
Diluted Shares Outstanding- EPS	73.9	74.2	74.3	74.3	74.6	74.4	74.6	74.6	74.6	74.6	74.6
Other	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Diluted Comparative FFO Shares	73.9	74.2	74.3	74.3	74.6	74.4	74.6	74.6	74.6	74.6	74.6
Funds From Operations Per Share	**$2.67**	**$0.64**	**$0.52**	**$0.79**	**$0.76**	**$2.71**	**$0.71**	**$0.64**	**$0.68**	**$0.73**	**$2.75**
Year-over-Year Growth	-1.7%	10.8%	-10.7%	11.3%	-4.7%	1.6%	11.4%	23.1%	-15.0%	-4.1%	1.5%
One Time Adjustments	7.1	1.2	15.9	-	-	17.1	-	-	-	-	-
Diluted Shares	73.9	74.2	74.3	74.3	74.6	74.4	74.6	74.6	74.6	74.6	74.6
Normalized Funds From Operations Per Share	**$2.76**	**$0.66**	**$0.73**	**$0.79**	**$0.76**	**$2.94**	**$0.71**	**$0.64**	**$0.68**	**$0.73**	**$2.75**
Year-over-Year Growth	1.6%	9.6%	16.4%	7.4%	-4.7%	6.4%	8.7%	-12.9%	-15.0%	-4.1%	-6.4%
Non Real Estate D&A	49.0	13.3	13.4	13.4	13.5	53.7	13.5	13.6	13.7	13.8	54.4
Stock based compensation expenses, pre-tax	11.7	3.2	3.2	3.2	3.2	12.9	3.5	3.1	3.0	3.0	12.7
Other	7.0	2.4	2.7	3.3	3.3	11.6	3.3	3.3	3.3	3.3	13.2
Recurring Funds From Operations	271.9	67.6	73.6	79.0	76.6	296.9	73.5	67.5	70.4	74.3	285.7
Recurring Funds From Operations Per Share	**$3.68**	**$0.91**	**$0.99**	**$1.06**	**$1.03**	**$3.99**	**$0.99**	**$0.90**	**$0.94**	**$1.00**	**$3.83**
Year-over-Year Growth	4.3%	13.0%	16.4%	8.9%	-1.6%	8.5%	8.1%	-8.7%	-11.3%	-3.0%	-4.1%
Maintenance CapEx	(23.6)	(5.2)	(6.0)	(7.5)	(5.8)	(24.6)	(6.2)	(6.3)	(6.3)	(6.4)	(25.2)
Recurring AFFO	248.4	62.4	67.7	71.5	70.8	272.3	67.3	61.2	64.1	68.0	260.6
Reported Recurring AFFO per Share	**$3.36**	**$0.84**	**$0.91**	**$0.96**	**$0.95**	**$3.66**	**$0.90**	**$0.82**	**$0.86**	**$0.91**	**$3.49**
Year-over-Year Growth	4.8%	17.3%	17.1%	7.2%	-2.0%	9.0%	7.3%	-9.9%	-10.7%	-4.0%	-4.6%
Facility Improvement & Maintenance Capex	(62.6)	(7.9)	(7.4)	(11.0)	(10.3)	(36.7)	(9.0)	(11.9)	(10.7)	(10.5)	(42.2)
CG Recurring AFFO	209.3	59.7	66.2	68.0	66.3	260.2	64.5	55.6	59.6	63.8	243.6
CG Recurring AFFO per Share	**$2.83**	**$0.80**	**$0.89**	**$0.91**	**$0.89**	**$3.50**	**$0.86**	**$0.74**	**$0.80**	**$0.86**	**$3.26**
Year-over-Year Growth	7.4%	31.0%	82.0%	17.7%	-6.5%	23.6%	7.4%	-16.4%	-12.6%	-3.7%	-6.7%

Source: Company reports, Canaccord Genuity estimates

GEO EBITDA reconciliation (in millions)

Valuation Statistics	2015	1Q16	2Q16	3Q16	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E
EBITDA Reconciliation											
Net Income	$139.4	$32.4	$23.2	$43.7	$41.2	$140.5	$37.9	$32.1	$34.8	$38.6	$143.5
Depreciation and amortization	106.8	28.5	28.7	28.8	28.9	114.8	28.8	29.0	29.2	29.4	116.4
General and administrative	137.0	34.1	36.9	37.5	36.7	145.2	37.2	35.5	35.7	34.4	142.8
Interest expense	94.6	24.8	25.2	25.5	25.7	101.2	25.3	26.7	29.1	28.2	109.3
Equity in earnings of affiliates, net of income tax provision	(5.5)	(1.1)	(2.1)	(1.7)	(1.7)	(6.6)	(1.6)	(1.5)	(1.6)	(1.6)	(6.3)
Income tax (benefit)/provision	7.4	3.2	3.9	5.0	8.1	20.1	3.8	3.2	3.5	3.9	14.4
Loss on extinguisment of debt	-	-	15.9	-	-	15.9	-	-	-	-	-
Net (income)/loss attributable to noncontrolling interests	(0.1)	(0.0)	(0.1)	(0.0)	(0.0)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)
(Income) loss from discontinued ops		-	-	-	-		-	-	-	-	
Operating lease expense, real estate	27.8	12.7	6.6	6.5	6.5	32.2	6.6	6.6	6.5	6.5	26.1
Other	-	1.9	-	-	-	1.9	-	-	-	-	-
Net Operating Income (NOI)	**507.3**	**136.3**	**138.1**	**145.2**	**145.5**	**565.0**	**138.0**	**131.5**	**137.1**	**139.3**	**545.9**
Less:											
General and administrative expenses	137.0	34.1	36.9	37.5	36.7	145.2	37.2	35.5	35.7	34.4	142.8
Operating lease expense, real estate	27.8	12.7	6.6	6.5	6.5	32.2	6.6	6.6	6.5	6.5	26.1
Loss on extinguisment of debt, pre-tax	-	-	-	-	-	-	-	-	-	-	-
Equity in earnings of affiliates, pre-tax	(7.6)	(1.6)	(2.9)	(2.3)	(2.3)	(9.1)	(2.2)	(2.1)	(2.2)	(2.2)	(8.7)
Other	-	-	-	-	-	-	-	-	-	-	-
EBITDA	**350.1**	**89.2**	**97.5**	**103.6**	**104.6**	**394.8**	**96.4**	**91.5**	**97.2**	**100.7**	**385.8**
Adjustments:											
Net income attributable to non-controlling interests	0.1	0.0	0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.2
Stock based compensation expenses, pre-tax	11.7	3.2	3.2	3.2	3.2	12.9	3.5	3.1	3.0	3.0	12.7
REIT conversion related expenses, pre-tax	-	-	-	-	-	-	-	-	-	-	-
Loss on extinguisment of debt, pre-tax	-	-	-	-	-	-	-	-	-	-	-
Other	5.5	1.9	-	-	-	1.9	-	-	-	-	-
Adjusted EBITDA	**367.4**	**94.4**	**100.8**	**106.8**	**107.8**	**409.8**	**100.0**	**94.7**	**100.2**	**103.7**	**398.6**
Year-over-Year Growth	5.2%	14.6%	14.4%	10.1%	7.9%	11.6%	5.9%	-6.0%	-6.2%	-3.8%	-2.7%

Source: Company reports, Canaccord Genuity estimates

CoreCivic Inc. (CXW : BUY, $30 PT)

Investment summary

CG vs. consensus estimates

		CG	Cons.	Var.
AFFO per share	4Q16	$0.57	$0.57	-1%
	2016	$2.50	$2.50	0%
	2017	$2.08	$1.99	5%
Adjusted EBITDA (M)	4Q16	$102	$108	-6%
	2016	$409	$450	-9%
	2017	$374	$382	-2%

Source: SNL, FactSet, Canaccord Genuity estimates

What we like about CXW

- Prison sector margins are best at owned properties, which make up the majority of CXW's portfolio. Given the stickiness of government contracts in the prison industry, we believe owned exposure drives the most value.
- We believe a Trump administration will encourage the further use of private companies for the provision of traditional corrections, especially with ICE.
- Many of the headwinds which previously kept us on the sidelines, including the viability of private operations, the STFRC renegotiation, the election, and the dividend cut, have either abated or completely evaporated.
- CXW pays out an attractive 6.3% common dividend yield, which we believe is both well covered and safe in the near and medium terms.

Potential concerns

- Elimination of family residential facilities, such as the South Texas Family Residential Facility (we estimate is now roughly 8% of 2017E Adj. EBITDA) is still a remote possibility given scrutiny in the past.
- With Proposition 57 passing, we believe CXW's out of state California beds could be at risk over the long term.
- Negative headline risk surrounding sentencing reform could negatively impact the stock's valuation.
- CXW's business is mostly centered upon the owned business. While we prefer this type of arrangement in the prison space, the company's lack of diversification adds risk to the business model.

Key assumptions and model sensitivity

	Bear	Base	Bull
2016 Revenue Growth	0.4%	**3.0%**	4.1%
2017 Revenue Growth	-10.3%	**-3.0%**	-1.8%
Incremental Beds Announced	0	**0**	0
2016 Normalized FFO	$2.44	**$2.61**	$2.83
2017 Normalized FFO	$1.93	**$2.20**	$2.59
2016 Recurring AFFO	$2.34	**$2.50**	$2.73
2017 Recurring AFFO	$1.81	**$2.08**	$2.47
Discount Rate	12.00%	**9.00%**	10.00%
Valuation by Scenario	$21	**$30**	$38
Price Return	*-21%*	***12%***	*42%*
Implied P/AFFO Multiple at Valuation	*11.6x*	***14.4x***	*15.4x*

Source: Company reports, Canaccord Genuity estimates

Valuation

Our $30 year-end 2017 price target is based on our discounted cash flow analysis, which assumes a 9.0% cost of equity and 2.0% terminal growth. Our valuation implies a 14.4x 2017E Recurring AFFO multiple.

Prison investment risks

- Deterioration in per-diems and occupancy levels driven by increased levels of competitive supply or deteriorating demand would likely negatively impact valuation and investor sentiment.
- Secondary offerings are possible and often result in earnings dilution as REITs must distribute 90% of taxable income to shareholders by law.
- Expense pressure could cause NOI results to lag investor expectations.
- Development delays or cost overruns could materially impact near-term investor expectations.

Company description

CoreCivic Inc. is a REIT specializing in owning, operating and managing prisons and other correctional facilities and providing residential, community re-entry, and prisoner transportation services for governmental agencies. As of December 31, 2015, the company owned or controlled 66 correctional and detention facilities and managed an additional 11 facilities owned by government partners, with a total design capacity of approximately 88,500 beds in 20 states and the District of Columbia.

CXW balance sheet

Balance Sheet	2015	1Q16	2Q16	3Q16	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E
Assets											
Cash and cash equivalents-unrestricted	65.3	56.3	70.8	42.7	61.9	61.9	38.7	48.5	76.0	94.1	94.1
Cash and cash equivalents-restricted	0.9	-	-	-	-	-	-	-	-	-	-
Notes and other current assets	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	**$66.2**	**$56.3**	**$70.8**	**$42.7**	**$61.9**	**$61.9**	**$38.7**	**$48.5**	**$76.0**	**$94.1**	**$94.1**
Net PP&E	2,883.1	2,854.1	2,870.2	2,850.2	2,876.3	2,876.3	2,888.2	2,905.8	2,919.3	2,939.0	2,939.0
Accounts receivable, net of allowance	234.5	208.3	221.4	222.4	222.4	222.4	222.4	222.4	222.4	222.4	222.4
Current deferred tax assets	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses and other current assets	41.4	28.6	33.0	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7
Assets held for sale	-	-	-	-	-	-	-	-	-	-	-
Investment in direct financing lease	0.7	-	-	-	-	-	-	-	-	-	-
Goodwill	35.6	35.0	38.4	38.4	38.4	38.4	38.4	38.4	38.4	38.4	38.4
Non-current deferred tax assets	9.8	8.9	7.8	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Other non-current assets	84.8	84.0	86.1	86.8	86.8	86.8	86.8	86.8	86.8	86.8	86.8
Total Assets	**$3,356.0**	**$3,275.3**	**$3,327.8**	**$3,285.3**	**$3,330.5**	**$3,330.5**	**$3,319.2**	**$3,346.7**	**$3,387.7**	**$3,425.5**	**$3,425.5**
Liabilities											
Accounts payable and accrued liabilities	317.7	308.6	332.9	329.4	326.9	326.9	333.0	321.2	324.1	326.0	326.0
Income taxes payable	1.9	2.4	1.1	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Total Current Liabilities	**$319.6**	**$311.0**	**$334.0**	**$331.1**	**$328.5**	**$328.5**	**$334.6**	**$322.9**	**$325.7**	**$327.6**	**$327.6**
Debt											
Senior Credit Term Loan	539.0	494.3	541.5	514.3	514.3	514.3	514.3	514.3	514.3	514.3	514.3
4.625% Senior Notes	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0
4.125% Senior Notes	325.0	325.0	325.0	325.0	325.0	325.0	325.0	325.0	325.0	325.0	325.0
5.0% Senior Notes	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0
6.25% Senior Notes	-	-	-	-	-	-	-	-	-	-	-
6.75% Senior Notes	-	-	-	-	-	-	-	-	-	-	-
7.75% Senior Notes	-	-	-	-	-	-	-	-	-	-	-
7.5% Senior Notes	-	-	-	-	-	-	-	-	-	-	-
Other Debt	-	-	-	-	-	-	-	-	-	-	-
New/Maturing Debt	-	-	-	-	-	-	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
Total Debt	**1,464.0**	**1,419.3**	**1,466.5**	**1,439.3**	**1,439.3**	**1,439.3**	**1,389.3**	**1,389.3**	**1,389.3**	**1,389.3**	**1,389.3**
Other non-current liabilities	109.7	98.6	82.6	70.8	70.8	70.8	70.8	70.8	70.8	70.8	70.8
Shareholders' Equity											
Common stock	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Additional paid-in capital	1,762.4	1,763.7	1,768.3	1,776.5	1,776.5	1,776.5	1,776.5	1,776.5	1,776.5	1,776.5	1,776.5
Distributions in excess of accumulated earnings	-	-	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive loss, net	(300.8)	(318.4)	(324.9)	(333.5)	(285.7)	(285.7)	(253.1)	(213.9)	(175.7)	(139.9)	(139.9)
Retained Earnings	-	-	-	-	-	-	-	-	-	-	-
Total Shareholders' Equity	**$1,462.7**	**$1,446.5**	**$1,444.6**	**$1,444.2**	**$1,491.9**	**$1,491.9**	**$1,524.6**	**$1,563.8**	**$1,602.0**	**$1,637.8**	**$1,637.8**
Total Liabilities and Equity	**$3,356.0**	**$3,275.3**	**$3,327.8**	**$3,285.3**	**$3,330.5**	**$3,330.5**	**$3,319.2**	**$3,346.7**	**$3,387.7**	**$3,425.5**	**$3,425.5**

Source: Company reports, Canaccord Genuity estimates

CXW income statement – quarterly, with projections

Income Statement ($ in millions)	2015	1Q16	2Q16	3Q16	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E
Revenues											
Owned & Controlled Property Revenues	1,576.9	396.9	411.5	422.1	409.1	1,639.5	394.6	392.0	397.8	398.3	1,582.7
Managed Only & Other Revenues	216.1	50.5	51.9	52.8	52.5	207.7	51.3	52.3	52.8	52.5	209.0
Total Revenue	**1,793.1**	**447.4**	**463.3**	**474.9**	**461.6**	**1,847.2**	**445.9**	**444.3**	**450.7**	**450.8**	**1,791.7**
Y/Y Change	8.9%	5.0%	0.9%	3.3%	3.1%	3.0%	-0.3%	-4.1%	-5.1%	-2.3%	-3.0%
Expenses											
Owned & Controllled Property Expense	1,050.6	265.0	268.6	275.5	274.4	1,083.5	276.1	269.0	272.9	275.0	1,093.0
Managed Only & Other Expense	205.5	48.9	47.9	50.8	50.4	198.0	50.1	48.7	51.2	50.8	200.8
Operating Expenses	**1,256.1**	**313.9**	**316.4**	**326.3**	**324.8**	**1,281.5**	**326.2**	**317.7**	**324.1**	**325.8**	**1,293.8**
Property NOI Margin	*29.9%*	*29.8%*	*31.7%*	*31.3%*	*29.6%*	*30.6%*	*26.8%*	*28.5%*	*28.1%*	*27.7%*	*27.8%*
General and Administrative Expenses	103.9	26.5	27.4	27.7	26.5	108.1	25.4	25.3	25.7	26.1	102.6
% of Sales	5.8%	5.9%	5.9%	5.8%	5.8%	5.9%	5.7%	5.7%	5.7%	5.8%	5.7%
Other Expense	-	-	-	-	-	-	-	-	-	-	-
% of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Expenses	**1,360.1**	**340.4**	**343.8**	**354.0**	**351.3**	**1,389.6**	**351.6**	**343.0**	**349.8**	**351.9**	**1,396.4**
Consolidated EBITDA	**433.0**	**$107**	**$120**	**$121**	**$110**	**457.6**	**$94**	**$101**	**$101**	**$99**	**395.3**
Operating Cash Flow Margin	24%	23.9%	25.8%	25.5%	23.9%	25%	21.1%	22.8%	22.4%	21.9%	22%
Year-over-Year Growth	0.1	8.7%	1.2%	13.3%	0.4%	0.1	-11.8%	-15.2%	-16.6%	-10.3%	(0.1)
Depreciation and Amortization	151.5	42.1	42.3	42.9	40.1	167.4	36.9	37.0	37.1	37.2	148.1
% of Sales	8%	9.4%	9.1%	9.0%	8.7%	9%	8.3%	8.3%	8.2%	8.2%	8%
Operating Income	**281.5**	**64.9**	**77.2**	**78.0**	**70.1**	**290.2**	**57.5**	**64.3**	**63.8**	**61.7**	**247.2**
Operating Margin	16%	14.5%	16.7%	16.4%	15.2%	16%	12.9%	14.5%	14.2%	13.7%	14%
Year-over-Year Growth	5.0%	-7.0%	-3.2%	19.1%	5.4%	3.1%	-11.5%	-16.6%	-18.2%	-12.1%	-14.8%
Interest Income & Other	(0.6)	0.1	(0.1)	(0.1)	(0.0)	(0.2)	(0.0)	(0.0)	(0.1)	(0.1)	(0.2)
Interest Expense	(49.7)	(17.5)	(16.8)	(16.9)	(16.4)	(67.7)	(15.6)	(16.1)	(16.6)	(16.9)	(65.2)
Loss on Extinguishmment of Debt	-	-	-	-	-	-	-	-	-	-	-
PreTax Income	**231.2**	**47.5**	**60.2**	**61.0**	**53.6**	**222.3**	**41.8**	**48.2**	**47.1**	**44.7**	**181.8**
Equity in losses of unconsolidated real estate partnerships	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of real estate	-	-	-	-	-	-	-	-	-	-	-
Provision for income taxes	(8.4)	(1.2)	(2.7)	(1.6)	(3.5)	(8.9)	(3.5)	(3.5)	(3.5)	(3.5)	(14.0)
Other	(1.0)	-	-	(4.0)	-	(4.0)	-	-	-	-	-
Income From Continuing Operations	**221.9**	**46.3**	**57.6**	**55.3**	**50.1**	**209.4**	**38.3**	**44.7**	**43.6**	**41.2**	**167.8**
Income from discontinued operations, net	-	-	-	-	-	-	-	-	-	-	-
Net Income	**221.9**	**46.3**	**57.6**	**55.3**	**50.1**	**209.4**	**38.3**	**44.7**	**43.6**	**41.2**	**167.8**
Minority interests	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Net Income to GEO	**221.9**	**46.3**	**57.6**	**55.3**	**50.1**	**209.4**	**38.3**	**44.7**	**43.6**	**41.2**	**167.8**
Dividends to preferred stockholders	-	-	-	-	-	-	-	-	-	-	-
Allocation to participating securities	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Net Income to Common	**221.9**	**46.3**	**57.6**	**55.3**	**50.1**	**209.4**	**38.3**	**44.7**	**43.6**	**41.2**	**167.8**
Diluted Shares Outstanding	117.8	117.8	118.0	117.7	117.7	117.8	117.7	117.7	117.7	117.7	117.7
Net Income per Share	**$1.88**	**$0.39**	**$0.49**	**$0.47**	**$0.43**	**$1.78**	**$0.33**	**$0.38**	**$0.37**	**$0.35**	**$1.43**
Net Margin	12.4%	10.4%	12.4%	11.7%	10.9%	11.3%	8.6%	10.1%	9.7%	9.1%	9.4%
Year-over-Year Growth	13.3%	-19.2%	-12.0%	9.3%	3.3%	-5.6%	-17.2%	-22.1%	-21.2%	-17.9%	-19.8%
Recurring Funds from Operations per Share	**$2.69**	**$0.60**	**$0.69**	**$0.69**	**$0.63**	**$2.61**	**$0.52**	**$0.57**	**$0.56**	**$0.54**	**$2.20**
Year-over-Year Growth	1.8%	-11.0%	-7.2%	7.1%	-0.8%	-3.2%	-13.8%	-16.8%	-17.9%	-13.6%	-15.6%

Source: Company reports, Canaccord Genuity estimates. A more detailed financial model, including balance sheet, income statement, and cash flow projections, if available, may be obtained by contacting your Canaccord Genuity Sales Person or the Authoring Analyst, whose contact information appears on the front page of this report.

CXW FFO reconciliation (in millions)

Funds From Operations (FFO)	2015	1Q16	2Q16	3Q16	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E
Basic Recurring Net Income	221.9	46.3	57.6	55.3	50.1	209.4	38.3	44.7	43.6	41.2	167.8
Depreciation and amortization	90.2	23.3	23.4	23.7	23.5	93.9	22.7	22.7	22.8	22.9	91.1
Gains not included in FFO, net of internal disposition costs	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
FFO	**312.1**	**69.6**	**81.0**	**79.0**	**73.7**	**303.3**	**61.0**	**67.5**	**66.4**	**64.0**	**258.9**
Diluted Shares Outstanding- EPS	117.8	117.8	118.0	117.7	117.7	117.8	117.7	117.7	117.7	117.7	117.7
Other	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Diluted Comparative FFO Shares	117.8	117.8	118.0	117.7	117.7	117.8	117.7	117.7	117.7	117.7	117.7
Funds From Operations Per Share	**$2.65**	**$0.59**	**$0.69**	**$0.67**	**$0.63**	**$2.57**	**$0.52**	**$0.57**	**$0.56**	**$0.54**	**$2.20**
Year-over-Year Growth	0.1%	-11.3%	-7.6%	8.0%	1.3%	-2.8%	-12.4%	-16.5%	-16.0%	-13.1%	-14.6%
One Time Adjustments	5.3	1.1	0.3	1.9	0.4	3.8	-	-	-	-	-
Diluted Shares	117.8	117.8	118.0	117.7	117.7	117.8	117.7	117.7	117.7	117.7	117.7
Normalized Funds From Operations Per Share	**$2.69**	**$0.60**	**$0.69**	**$0.69**	**$0.63**	**$2.61**	**$0.52**	**$0.57**	**$0.56**	**$0.54**	**$2.20**
Year-over-Year Growth	1.8%	-11.0%	-7.2%	7.1%	-0.8%	-3.2%	-13.8%	-16.8%	-17.9%	-13.6%	-15.6%
Maintenance CapEx	(26.6)	(3.4)	(8.5)	(4.8)	(10.4)	(27.0)	(3.7)	(9.3)	(5.2)	(11.4)	(29.7)
Stock-based compensation	15.4	3.8	4.1	4.5	4.0	16.3	3.9	4.2	4.6	4.0	16.7
Amortization of debt costs and other	3.0	0.8	0.8	0.8	0.8	3.1	0.8	0.8	0.8	0.8	3.1
Other non-cash revenue and expenses	(0.1)	(0.0)	(1.2)	(1.8)	(1.8)	(4.9)	(1.8)	(0.9)	(0.9)	(0.9)	(4.6)
Recurring AFFO	309.0	72.0	76.4	79.6	66.6	294.7	60.1	62.1	65.6	56.5	244.4
Recurring AFFO per Share	**$2.62**	**$0.61**	**$0.65**	**$0.68**	**$0.57**	**$2.50**	**$0.51**	**$0.53**	**$0.56**	**$0.48**	**$2.08**
Year-over-Year Growth	1.9%	-9.8%	-11.2%	6.8%	-2.9%	-4.7%	-16.5%	-18.5%	-17.6%	-15.2%	-17.0%
						1.23					*1.24*
Cash Available for Distribution (CAD)	**2015**	**1Q16**	**2Q16**	**3Q16**	**4Q16E**	**2016E**	**1Q17E**	**2Q17E**	**3Q17E**	**4Q17E**	**2017E**
Funds From Operations	$317	$71	$81	$81	$74	$307	$61	$67	$66	$64	$259
Maintenance Capex	(26.6)	(3.4)	(8.5)	(4.8)	(10.4)	(27.0)	(3.7)	(9.3)	(5.2)	(11.4)	(29.7)
Other	18.3	4.6	3.6	3.5	2.9	14.6	2.8	4.0	4.5	3.9	15.2
Cash Available for Distribution	$309	$72	$76	$80	$67	$295	$60	$62	$66	$57	$244
Average Diluted Shares Outstanding	117.8	117.8	118.0	117.7	117.7	117.8	117.7	117.7	117.7	117.7	117.7
CAD per Share to Common	**$2.62**	**$0.61**	**$0.65**	**$0.68**	**$0.57**	**$2.50**	**$0.51**	**$0.53**	**$0.56**	**$0.48**	**$2.08**
Year-over-Year Growth	1.9%	-9.8%	-11.2%	6.8%	-2.9%	-4.7%	-16.5%	-18.5%	-17.6%	-15.2%	-17.0%
Dividend	*$2.16*	*$0.54*	*$0.54*	*$0.54*	*$0.42*	*$2.04*	*$0.42*	*$0.42*	*$0.42*	*$0.42*	*$1.68*
CAD Dividend Coverage	*82.3%*	*88.3%*	*83.4%*	*79.8%*	*74.2%*	*81.5%*	*82.2%*	*79.5%*	*75.3%*	*87.5%*	*80.9%*

Source: Company reports, Canaccord Genuity estimates

CXW EBITDA reconciliation (in millions)

EBITDA Reconciliation											
Net Income	221.9	$46.3	$57.6	$55.3	$50.1	$209.4	$38.3	$44.7	$43.6	$41.2	$167.8
Depreciation and amortization	151.5	42.1	42.3	42.9	40.1	167.4	36.9	37.0	37.1	37.2	148.1
General and administrative	103.9	26.5	27.4	27.7	26.5	108.1	25.4	25.3	25.7	26.1	102.6
Interest expense	50.3	17.5	16.9	17.0	16.5	67.9	15.6	16.1	16.7	17.0	65.4
Equity in earnings of affiliates, net of income tax provision	-	-	-	-	-	-	-	-	-	-	-
Income tax (benefit)/provision	8.4	1.2	2.7	1.6	3.5	8.9	3.5	3.5	3.5	3.5	14.0
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-
Net (income)/loss attributable to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-
(Income) loss from discontinued ops	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Net Operating Income (NOI)	**536.0**	**133.5**	**146.9**	**144.6**	**136.8**	**561.7**	**119.7**	**126.6**	**126.5**	**125.0**	**497.9**
Less:											
General and administrative expenses	(103.9)	(26.5)	(27.4)	(27.7)	(26.5)	(108.1)	(25.4)	(25.3)	(25.7)	(26.1)	(102.6)
Loss on extinguishment of debt, pre-tax	-	-	-	-	-	-	-	-	-	-	-
Equity in earnings of affiliates, pre-tax	-	-	-	-	-	-	-	-	-	-	-
Other	(0.6)	0.1	(0.1)	(0.1)	(0.0)	(0.2)	(0.0)	(0.0)	(0.1)	(0.1)	(0.2)
EBITDA	**431.4**	**107.1**	**119.4**	**116.8**	**110.2**	**453.5**	**94.3**	**101.3**	**100.8**	**98.8**	**395.1**
Adjustments:											
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-
Stock based compensation expenses, pre-tax	-	-	-	-	-	-	-	-	-	-	-
Depreciation associated with STFRC	(29.9)	(10.6)	(10.6)	(10.7)	(6.7)	(38.6)	(4.2)	(4.2)	(4.2)	(4.2)	(16.6)
Interest expense associated with STFRC	(8.5)	(2.9)	(2.7)	(2.5)	(1.8)	(9.8)	(1.6)	(1.6)	(1.6)	(1.6)	(6.4)
Other	5.3	1.1	0.3	2.1	0.4	4.0	0.5	0.5	0.5	0.5	2.0
Adjusted EBITDA	**398.4**	**94.7**	**106.4**	**105.7**	**102.1**	**409.0**	**89.0**	**96.0**	**95.5**	**93.5**	**374.1**
Year-over-Year Growth	3.3%	-3.8%	-0.9%	11.5%	4.6%	2.7%	-6.0%	-9.8%	-9.7%	-8.4%	-8.5%

Source: Company reports, Canaccord Genuity estimates

State-by-state department of corrections analyses

Alabama

Figure 27: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Correctional	Perry County Correctional Facility	Idle	690	-	-	-
GEO Total				**690**		**0.0%**	**0.0%**
CXW							
CXW Total				**0**		**0.0%**	**0.0%**

Source: Company Reports, Canaccord Genuity estimates

Figure 28: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	Sep '16
Custody	25,686	25,341	26,403	26,268	26,230	26,271	25,664	24,814	23,759
Growth	-	*-1%*	*4%*	*-1%*	*0%*	*0%*	*-2%*	*-3%*	*-4%*
Capacity	98%	104%	104%	100%	100%	101%	98%	96%	92%*

*Capacity estimate based on Sept' 16 populations and 2015 capacity data
Note: Alabama Capacity excludes private facilities that may operate in the state
Source: Bureau of Justice Statistics, Alabama Department of Corrections

State comments

Alabama populations have been on the decline since 2013, while highest rated capacity has fallen to roughly 92% as of September 2016. There is a lot of fanfare over the lowest capacity rating (186% as of 2015), however, which the media has harped on and helped encourage Governor Bentley to attempt passing a large bill to develop new prisons. The current stock of prisons in the area has been noted by the media as being antiquated and in need of replacement.

Criminal justice reform

- Recently, Governor Bentley tried to pass a bill to borrow $800M in order to build four new mega prisons and address the state's overcrowding issues. The bill was delayed but could ultimately return to the Senate floor later. (http://www.al.com/news/index.ssf/2016/03/alabama_senate_delays_vote_on_1.html)
- Legislators say they may still be called into special session, where they could possibly take another look at the prison issue. (http://whnt.com/2016/05/06/failure-of-alabama-prison-bill-sets-the-stage-for-federal-intervention/)

Private opportunity for Alabama DOC business

- In early 1996, Jeff Sessions wrote an advisory opinion stating that state law allowed Alabama to use the private companies to manage prisons.
- Alabama news outlets are very focused on the lowest capacity rating figure, which has been around 175% and greater over the past few years. We believe the bill could resurface and result in external growth down the road, which could involve the private players. Beyond that, there are few external growth prospects.
- GEO acquired the Perry County facility via the acquisition of LCS, which was also idle when the transaction was completed. Given capacity constraints, we aren't banking on a contract anytime soon, as the need simply isn't there. However, the long term prospects of the contract are certainly more promising with the expected appointment to Attorney General of Jeff Sessions (budget hawk, tough on crime), who served Alabama prior.
- CXW has no properties or outstanding contracts in Alabama.

Alaska

Figure 29: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Community	Cordova Center	BOP, AK-DOC	262	12/16, 1/17	0.5%	0.7%
	Owned - Community	Midtown Center	AK-DOC	32	6/17	0.1%	0.1%
	Owned - Community	Northstar Center	AK-DOC	143	6/17	0.3%	0.4%
	Owned - Community	Parkview Center	Idle	112	-	-	-
	Owned - Community	Seaside Center	AK-DOC	50	6/17	0.1%	0.1%
	Owned - Community	Tundra Center	AK-DOC	85	11/16	0.1%	0.2%
GEO Total				**684**		**1.0%**	**1.6%**
CXW							
CXW Total				**0**		**0.0%**	**0.0%**

Source: Company Reports, Canaccord Genuity estimates

Figure 30: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015
Custody	3,058	3,206	3,206	3,708	4,575	5,054	5,188	5,247
Growth	-	*5%*	*0%*	*16%*	*23%*	*10%*	*3%*	*1%*
Capacity	111%	120%	120%	116%	143%	NA	97%	98%

Note: Alaska Capacity excludes private facilities that may operate in the state.
Source: Bureau of Justice Statistics

State comments

Alaska's prison population growth was rampant in 2011, 2012, and 2013 but has since leveled. Alaska's capacity measures have been somewhat unreliable over the past years given a change in reporting due to the use of out-of-state beds, which is now immaterial to population counts. As such, we believe the current measure (98% as of 2015) is accurate. We do not have population counts for 2016.

Criminal justice reform

- In December 2015, the Alaska Criminal Justice commission said they could save $424M by cutting prison populations by 21%. About 75% of those incarcerated after trial in 2014 were locked up for nonviolent crimes. But as of March 2016, the population of inmates was dropping, and plans called for 1,200 early releases for minimum security inmates.
- As a result, Senate Bill 91 was signed into law, which averts money spent on housing inmates and allows for reinvestment in alternative, recidivism-reducing strategies. (https://www.adn.com/politics/2016/07/11/alaska-gov-walker-signs-crime-reform-bill-into-law/)

Private opportunity for Alaska DOC business

- The external growth opportunity in Alaska seems more centered on community-based programs rather than traditional corrections. We don't see material opportunity to expand this market.
- We believe GEO's focus on community in Alaska is prudent. Given that SB91 was signed in July of 2016, we believe there may be opportunity to expand community corrections as prisoners are shifted into such recidivism-reducing programs. As such, we may see Parkview Center get another contract.
- CXW currently has no Alaska exposure, and while we wouldn't expect the company to enter the market given GEO's concentration and relationship, we also would not count CXW out given its strategy of acquiring more community facilities.

Arizona

Figure 31: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Managed-Only	Arizona State Prison - Florence West	AZ - DOC	750	10/17	0.7%	0.3%
	Managed-Only	Arizona State Prison - Phoenix West	AZ - DOC	500	7/17	0.5%	0.2%
	Managed-Only	Central Arizona Correctional Facility	AZ - DOC	1,280	12/16	1.2%	0.5%
	Managed-Only	Arizona State Prison - Kingman	AZ - DOC	3,400	1/18	3.3%	1.2%
GEO Total				**5,930**		**5.7%**	**2.1%**
CXW	Owned - Correctional	Red Rock Correctional Center	AZ - DOC	1,596	1/24	1.8%	1.9%
CXW Total				**1,596**		**1.8%**	**1.9%**

Source: Company Reports, Canaccord Genuity estimates

Figure 32: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	Oct '16
Custody	35,286	41,426	43,011	33,492	33,578	34,626	35,181	35,733	35,657
Growth	-	*17%*	*4%*	*-22%*	*0%*	*3%*	*2%*	*2%*	*0%*
Capacity	79%	76%	76%	79%	80%	82%	82%	82%	82%*
Arizona DOC Report							112%	115%	110%

*Capacity estimate based on Oct' 16 populations and 2015 capacity data
Note: Arizona Capacity excludes private facilities that may operate in the state.
Source: Bureau of Justice Statistics, Arizona Department of Corrections

State comments

Arizona has seen consistent, modest growth in inmate custody from 2012 forward, and has maintained capacity (on the highest rated level) of around 82% for the past four years. We note, however, that within Arizona's DOC two-year population report, the agency reported capacity at over 110% for the year-ending 2014 and 2015, as well as October in 2016. We argue that those looking to either propose sentencing reform or suggest adding capacity may point to those figures to induce an agenda.

Criminal justice reform

- Governor Doug Ducey mentioned at the beginning of 2017 that he wants to focus on reducing criminal recidivism rates in 2017, but he also made a similar statement in 2016 and showed minimal commitment as the year progressed. (http://ktar.com/story/1414591/ducey-to-address-criminal-justice-reform-in-state-of-the-state-address/)
- In 2016, he urged state lawmakers to enact proven justice reforms that focus on drug treatment and rehabilitation as alternatives to incarceration, similar to what Texas and Georgia have done. (http://www.freedomworks.org/content/arizona-governor-plans-pursue-justice-reform-2016-legislative-agenda)

Private opportunity for Arizona DOC business

- Arizona's capacity doesn't seem to be pressing the need for more beds or sentencing reform at present. As a result, we don't see an outsized external growth opportunity.
- CXW is expected to wrap up the Red Rock Correctional Center expansion (+~424 beds) by the end of 2016. We don't see any other near-term external growth opportunities for CXW in Arizona at present.
- GEO was awarded the management contract of the Kingman facility after MTC was removed as an ineffective operator. This expanded on GEO's market share, but we don't believe the four management contracts give the company more pull in the area relative to CXW's one owned facility.

California

Figure 33: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Community	Central Valley MCCF	CDCR	700	6/18	0.9%	1.4%
	Owned - Community	Desert View MCCF	CDCR	700	6/18	0.9%	1.4%
	Owned - Community	Golden State MCCF	CDCR	700	6/18	0.9%	1.4%
	Owned - Community	McFarland Female CCF	CDCR	300	6/18	0.4%	0.6%
	Owned - Community	Taylor Street	BOP, CDCR	210	3/17, 6/17	0.3%	0.4%
	Managed-Only	Alhambra City Jail	Los Angeles County	71	6/17	0.1%	0.0%
	Managed-Only	Baldwin Park City Jail	Los Angeles County	32	6/18	0.1%	0.0%
	Managed-Only	Downey City Jail	Los Angeles County	33	10/17	0.1%	0.0%
	Managed-Only	Fontana City Jail	Los Angeles County	25	6/18	0.0%	0.0%
	Managed-Only	Garden Grove City Jail	Los Angeles County	16	6/18	0.0%	0.0%
	Managed-Only	Montebello City Jail	Los Angeles County	35	7/18	0.1%	0.0%
	Managed-Only	Ontario City Jail	Los Angeles County	44	6/17	0.1%	0.0%
GEO Total				**2,866**		**3.7%**	**5.3%**
CXW	Owned - Correctional	La Palma Correctional Center	CDCR	3,060	6/19	3.7%	3.9%
	Owned - Correctional	Tallahatchie County Correctional Facility	CDCR	2,672	6/19	3.2%	3.4%
	Owned - Correctional	Leo Chesney Correctional Center	Idle	240	-	-	-
	Owned - Community	CAI Boston	CDCR	120	6/18	0.1%	0.2%
	Leased	California City Correctional Center	CDCR	2,560	11/20	2.0%	1.8%
	Leased	Long Beach Community Corrections Center	CEC	112	6/20	0.5%	0.4%
CXW Total				**8,764**		**9.5%**	**9.8%**

Source: Company Reports, Canaccord Genuity estimates

Figure 34: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Custody	161,530	157,427	149,624	147,578	132,935	122,798	119,071	116,569	117,613
Growth	-	*-3%*	*-5%*	*-1%*	*-10%*	*-8%*	*-3%*	*-2%*	*1%*
Capacity	106%	109%	109%	106%	108%	143%	137%	133%	131%

Note: Capacity includes private facilities in the calculation
Source: Bureau of Justice Statistics, California Department of Corrections

State comments

As we have analyzed in our "Behind the Bars" bi-weekly, California has been the subject of much scrutiny given its elevated prisoner levels, high capacity, and consequent reform measures passed to reduce populations. While Prop-47 helped reduce capacity from the 143% peak seen in 2013 down to 131% today, we continue to note that California remains one of the most overcrowded across the country.

Criminal justice reform

- Prop 47 background:
  - Passed on 11/4/2014
  - Prison numbers dropped after California voters approved Proposition 47 in 2014, which reduced nonviolent, non-serious crimes to misdemeanors and gave more inmates a higher chance for parole consideration.
- Prop 57 background:
  - Passed on 11/8/2016
  - Those convicted of nonviolent felony crimes who have served full sentences for their primary offense and passed screening for public security will be eligible for parole. That makes about 7,000 inmates immediately eligible, according to The Associated Press.

- – Proposition 57 allowed inmates to earn credits for good behavior and educational or rehabilitative achievements, which can be used to reduce time spent in prison.
- – As of the beginning of 2016, there were about 25,000 nonviolent state felons that could seek early release and parole under Proposition 57.

Private opportunity for California DOC business

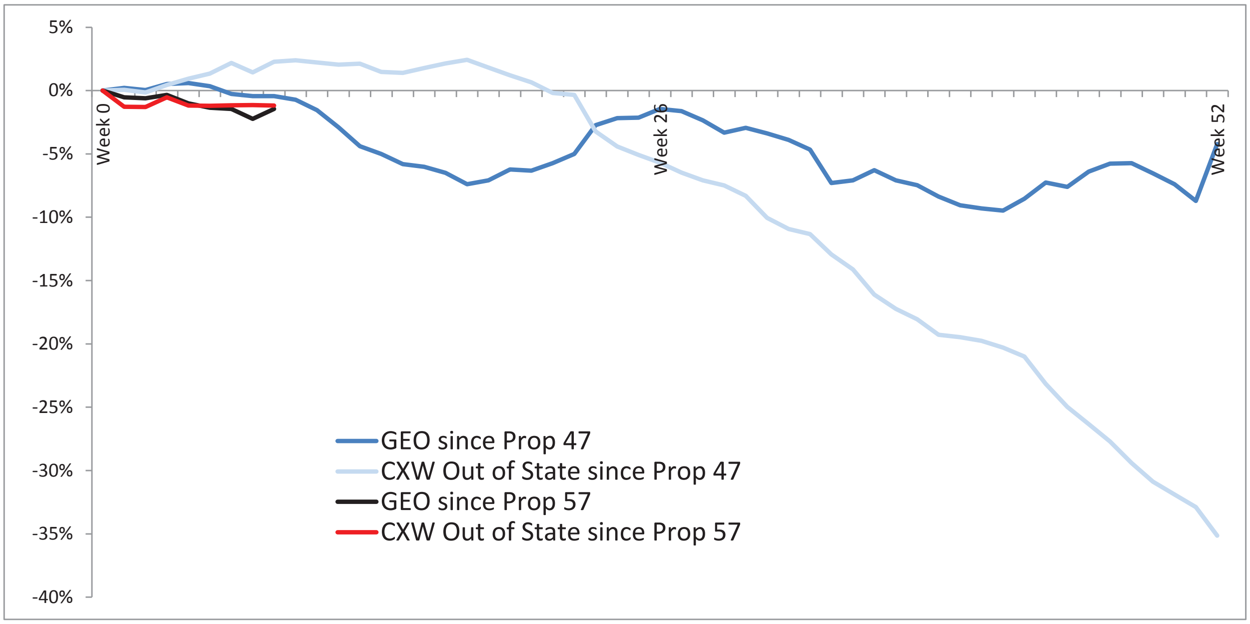
- At present, we believe the external growth opportunity in California is extremely limited, as the state is strongly looking to move in the opposite direction.
- We continue to see risk to CXW's out-of-state beds. In early January, Governor Brown released the California budget report, which included language on Proposition 57. It read: "The implementation of Proposition 57 and other population reduction measures mentioned above will allow the Department to remove all inmates from one of two remaining out-of-state facilities in 2017-18. Additionally, as the impact of Proposition 57 grows, the Department anticipates returning all 4,900 inmates from out-of-state facilities by 2020." As such, we believe these beds may fall off similar to what we saw during the aftermath of Prop 47's passing.
- Similarly, we don't believe GEO will find any new opportunities in the state. However, we believe from a relative point of view that GEO's 5.3% EBITDA exposure is less at risk compared to CXW's roughly 7-8% EBITDA exposure from out-of-state California beds.

Figure 35: California population statistics by entity

	Total California		GEO				CXW			
	Population	Post-Prop 47 Decline	Population	Post-Prop 47 Decline	Post-Prop 57 Decline	QTD	Population	Post-Prop 47 Decline	Post-Prop 57 Decline	QTD
2014										
October	136,045	-	2,346	-		1.4%	10,903	-		-0.8%
November	135,606	-0.3%	2,349	0.1%		1.5%	10,984	0.7%		-0.1%
December	134,431	-1.2%	2,324	-0.9%		0.4%	11,010	1.0%		0.2%
2015										
January	132,240	-2.8%	2,224	-5.2%		-4.3%	10,831	-0.7%		-1.6%
February	130,920	-3.8%	2,175	-7.3%		-6.4%	10,743	-1.5%		-2.4%
March	130,309	-4.2%	2,224	-5.2%		-4.3%	10,586	-2.9%		-3.9%
April	129,813	-4.6%	2,307	-1.7%		3.7%	10,307	-5.5%		-2.6%
May	129,246	-5.0%	2,262	-3.6%		1.7%	10,062	-7.7%		-4.9%
June	128,921	-5.2%	2,175	-7.3%		-2.2%	9,794	-10.2%		-7.5%
July	128,606	-5.5%	2,145	-8.6%		-1.4%	9,256	-15.1%		-5.5%
August	128,396	-5.6%	2,171	-7.5%		-0.2%	8,907	-18.3%		-9.1%
September	128,163	-5.8%	2,207	-5.9%		1.5%	8,326	-23.6%		-15.0%
October	127,867	-6.0%	2,242	-4.4%		1.6%	7,731	-29.1%		-7.1%
November	127,507	-6.3%	2,218	-5.5%		0.5%	7,256	-33.4%		-12.9%
December	127,675	-6.2%	2,158	-8.0%		-3.7%	7,147	-34.4%		-7.6%
2016										
January	127,292	-6.4%	2,107	-10.2%		-2.4%	6,932	-36.4%		-3.0%
February	127,313	-6.4%	2,071	-11.7%		-4.0%	6,912	-36.6%		-3.3%
March	127,752	-6.1%	2,050	-12.6%		-5.0%	6,886	-36.8%		-3.7%
April	127,747	-6.1%	2,131	-9.2%		4.0%	6,700	-38.5%		-2.7%
May	128,352	-5.7%	2,200	-6.2%		7.3%	6,646	-39.0%		-3.5%
June	128,620	-5.5%	2,211	-5.8%		7.9%	6,665	-38.9%		-3.2%
July	128,605	-5.5%	2,263	-3.5%		2.4%	6,680	-38.7%		0.2%
August	128,864	-5.3%	2,235	-4.7%		1.1%	6,678	-38.8%		0.2%
September	128,953	-5.2%	2,266	-3.4%		0.1%	6,731	-38.3%		0.8%
October	129,259	-5.0%	2,290	-2.4%	-	1.1%	6,893	-36.8%	-	2.4%
November	129,187	-5.0%	2,267	-3.4%	-1.0%	0.0%	6,860	-37.1%	-0.5%	1.9%
12/28/2016	129,455	-4.8%	2,257	-3.8%	-1.4%	-0.4%	6,853	-37.1%	-0.6%	1.8%

Source: California Department of Corrections & Rehabilitation

Figure 36: Prop 47 vs. Prop 57 - populations since legislation enacted



Source: California Department of Corrections & Rehabilitation

Colorado

Figure 37: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Correctional	Hudson Correctional Facility	Idle	1,250	-	-	-
	Owned - Youth	Southern Peaks Regional Treatment Center	Colorado DOC	136	NA	0.1%	0.0%
GEO Total				**1,386**		**0.1%**	**0.0%**
CXW	Owned - Correctional	Bent County Correctional Facility	Colorado DOC	1,420	1/17	1.3%	1.4%
	Owned - Correctional	Crowley County Correctional Facility	Colorado DOC	1,794	6/17	1.7%	1.8%
	Owned - Correctional	Huerfano County Correctional Center	Idle	752	-	-	-
	Owned - Correctional	Kit Carson Correctional Center	Idle	1,488	-	-	-
	Owned - Community	Boulder Community Treatment Center	Colorado DOC	69	6/17	0.1%	0.1%
	Owned - Community	Centennial Community Transition Center	Colorado DOC	107	6/17	0.1%	0.2%
	Owned - Community	Columbine Facility	Colorado DOC	60	6/17	0.1%	0.1%
	Owned - Community	Dahlia Facility	Colorado DOC	120	6/17	0.1%	0.2%
	Owned - Community	Fox Facility and Training Center	Colorado DOC	90	6/17	0.1%	0.1%
	Owned - Community	Longmont Community Treatment Center	Colorado DOC	69	1/17	0.1%	0.1%
	Owned - Community	Ulster Facility	Colorado DOC	90	1/17	0.1%	0.1%
CXW Total				**6,059**		**3.6%**	**4.1%**

Source: Company Reports, Canaccord Genuity estimates

Figure 38: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	Sep '16
Custody (excl. Contracts)	14,946	15,056	15,032	17,559	16,389	16,286	16,687	15,972	15,572
Growth	-	*1%*	*0%*	*17%*	*-7%*	*-1%*	*2%*	*-4%*	*-3%*
Capacity	120%	118%	118%	118%	115%	115%	115%	110%	107%*
Contract Beds		4,957	4,449	4,263	3,881	3,847	3,745	3,930	3,443
Growth	-	-	*-10%*	*-4%*	*-9%*	*-1%*	*-3%*	*5%*	*-12%*

*Capacity estimate based on Sept' 16 populations and 2015 capacity data
Note: Colorado Capacity excludes private facilities that may operate in the state
Source: Bureau of Justice Statistics, Colorado Department of Corrections

State comments

Populations in Colorado have been stable to slightly down, both at government owned and operated facilities as well as contract facilities. Capacity has remained elevated in the Colorado system, but has been slowly coming down since 2008.

Criminal justice reform

- Senate Bill 98, which looked to restore judicial discretion in criminal sentencing and repeal existing mandatory minimum sentences for many crimes, failed in February 2016. It has not resurfaced since, which could be due to either the presidential election or perhaps due to Colorado's population trends, which have displayed a decreasing prisoner base over the years.

Private opportunity for Colorado DOC business

- We do not see external growth opportunity in Colorado on the traditional corrections front.
- GEO has one idle corrections facility. We don't foresee the state using this facility given recent trends, so GEO would need likely need to find either a different state or a federal partner with capacity needs.
- CXW has two idle facilities. Similar to GEO, we don't foresee a Colorado opportunity, but we could see ICE or a different state come in contract the facility from CXW.

Florida

Figure 39: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Managed-Only	Bay Correctional Facility	FL DOC	985	1/17	0.8%	0.3%
	Managed-Only	Blackwater River Correctional Facility	FL DOC	2,000	10/17	1.7%	0.6%
	Managed-Only	Graceville Correctional Facility	FL DOC	1,884	1/17	1.6%	0.6%
	Managed-Only	Moore Haven Correctional Facility	FL DOC	985	1/17	0.8%	0.3%
	Managed-Only	South Bay Correctional Facility	FL DOC	1,948	6/18	1.7%	0.6%
GEO Total				**7,802**		**6.7%**	**2.5%**
CXW	Managed-Only	Citrus County Detention Facility	FL DOC	760	9/20	0.5%	0.2%
	Managed-Only	Lake City Correctional Facility	FL DOC	893	6/18	0.6%	0.2%
CXW Total				**1,653**		**1.0%**	**0.4%**

Source: Company Reports, Canaccord Genuity estimates

Figure 40: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015
Custody	102,625	106,433	105,814	100,861	99,835	100,940	100,873	99,485
Growth	*-*	*4%*	*-1%*	*-5%*	*-1%*	*1%*	*0%*	*-1%*
Capacity	88%	86%	96%	89%	88%	88%	92%	94%

Note: Florida Capacity includes private facilities that may operate in the state
Source: Bureau of Justice Statistics

State comments

The Florida DOC website has sadly been off-line for the better half of the last three months, so getting specific data has been hard to come by. However, looking at the BJS's published data, Florida has experienced relatively stable populations from 2011 to 2015. Capacity creeped up from 2013 to 2015, with the state now operating at 94% of the highest rated capacity.

Criminal justice reform

- The state has enacted 108 mandatory minimum sentencing laws over the last 30 years. While populations have actually shrunk since 2009, costs continue rising, which is driving a Senate Criminal Justice committee to start exploring reforms.
- In 2016, the Florida Legislature passed modest reforms signed into law by Governor Rick Scott. The most impactful was SB 228, which ended Florida's "10-20-life" mandatory minimum sentence. This is likely to lower custody further, but the impact is unclear.

Private opportunity for Florida DOC business

- Given that this is GEO's backyard, sentencing reform and overall in-check prisoner populations would typically spell a no-growth expectation for the company's operations in the state. We believe the company will likely be able to maintain the management contracts, but also don't believe too much is at stake should one or two of the contracts go away.
- CXW similarly is managed-only in the state of Florida. We don't see any growth in the state, but also don't believe contracts dissipating would be overly impactful on CXW's bottom line.

Georgia

Figure 41: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Correctional	Riverbend Correctional Facility	GA DOC	1,500	6/17	2.5%	3.1%
GEO Total				**1,500**		**2.5%**	**3.1%**
CXW	Owned - Correctional	Coffee Correctional Facility	GA DOC	2,312	6/17	2.9%	3.1%
	Owned - Correctional	Jenkins Correctional Center	GA DOC	1,124	6/17	1.4%	1.5%
	Owned - Correctional	Wheeler Correctional Facility	GA DOC	2,312	6/17	2.9%	3.1%
CXW Total				**5,748**		**7.1%**	**7.6%**

Source: Company Reports, Canaccord Genuity estimates

Figure 42: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Custody	56,305	58,231	58,763	52,844	55,178	53,701	52,719	52,002	52,586
Growth	-	*3%*	*1%*	*-10%*	*4%*	*-3%*	*-2%*	*-1%*	*1%*
Capacity	103%	100%	90%	87%	90%	89%	89%	88%	89%*
GEO Beds	1,747	1,744	0	182	1,474	1,495	1,498	1,504	1,520
Growth	-	*0%*	*-100%*	*NA*	*710%*	*1%*	*0%*	*0%*	*1%*
CXW Beds	3,390	3,491	5,218	5,518	6,497	6,513	6,502	6,577	6,542
Growth	-	*3%*	*49%*	*6%*	*18%*	*0%*	*0%*	*1%*	*-1%*

*Capacity estimate based on 2016 populations and 2015 capacity data
Note: Georgia Capacity excludes private facilities that may operate in the state
Source: Bureau of Justice Statistics, Georgia Department of Corrections

State comments

Given the Georgia Council on Criminal justice reform's (GA CJRI) work on the system, populations have slowly winded down up until 2015. This year, we estimate there was a modest resurgence in populations. Capacity has maintained right around the 90% level, meaning that the system is neither overcrowded nor underutilized. Looking at the private populations, we note that GEO's D. Ray James went offline in 2010 as a state facility and later became a BOP facility, as GEO's Riverbend facility came online starting in 2011. CXW added capacity at the Coffee facility in 2010 and also built the Jenkins facility in 2012, maintaining those populations through 2016.

Criminal justice reform

- In February of 2016, the GA CJRI released a report recommending a variety of reform measures that have largely kept the populations in check, rather than from growing or decreasing. (http://www.georgiapolicy.org/2016/02/2016-recommendations-from-the-criminal-justice-reform-council/)
- Extensive work has already been done over the past six years, and we don't expect anything material to come in the near- and medium- terms.

Private opportunity for Georgia DOC business

- We believe the external growth opportunity in Georgia overall is low for both CXW on traditional corrections, and likely fairly low overall given current population trends and present capacity.
- With Georgia reforms pointing to the use of alternative forms of corrections, we believe a consolidation of the fragmented community corrections mom and pops in the states may be in order.

Hawaii

Figure 43: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO							
GEO Total				**0**		**0.0%**	**0.0%**
CXW	Owned - Correctional	Saguaro Correctional Facility	Hawaii DOC	1,896	6/19	2.4%	2.6%
CXW Total				**1,896**		**2.4%**	**2.6%**

Source: Company Reports, Canaccord Genuity estimates

Figure 44: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	Nov '16
Custody	3,487	3,327	3,327	3,687	3,661	3,752	3,965	4,073	3,924
Growth	-	*-5%*	*0%*	*11%*	*-1%*	*2%*	*6%*	*3%*	*-4%*
Capacity	96%	96%	101%	111%	110%	113%	112%	116%	111%*
Custody including Private							5,364	5,444	5,306
Growth							-	*1%*	*-3%*
Capacity							84%	82%	85%

*Capacity estimate based on Nov. 2016 populations and 2015 capacity data
Source: Bureau of Justice Statistics, Hawaii Department of Corrections

State comments

Hawaii continues to see some stressed capacity in-state, but uses out-of-state private beds as a nice relief valve, not to mention a method in reducing travel costs. In-state capacities of roughly 111% are then 85% when taking into account the availability and use of private beds. Hawaii populations were growing up until November of this year, as they've started seeing a subtle decrease.

Criminal justice reform

- Criminal justice reform has been fairly absent from the State of Hawaii, with little fanfare since Hawaii Attorney General Eric Holder called for reform to reduce corrections costs. Not much came from such calls.
- Without a massive boom in populations (fairly in-line with what was witnessed back in 2011), there haven't been many requests for reforms.

Private opportunity for Hawaii DOC business

- Given populations are in check and Hawaii is using CXW's Saguaro Correctional as a relief valve, we believe there are few external growth opportunities on the horizon.
- We note that the Saguaro facility, which is located in Eloy, AZ, has averaged 77% compensated occupancy since 2Q13, so we don't believe there are too many opportunities to do more with the facility.

Illinois

Figure 45: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Youth	Southwood Interventions	IL DOC	80	NA	1.3%	0.6%
	Owned - Youth	Woodridge Interventions	IL DOC	90	NA	1.3%	0.6%
	Owned - Youth	Contract Interventions	IL DOC	32	NA	1.3%	0.6%
	Owned - Youth	DuPage Interventions	IL DOC	36	NA	1.3%	0.6%
GEO Total				**238**		**5.1%**	**2.3%**
CXW							
CXW Total				**0**		**0.0%**	**0.0%**

Source: Company Reports, Canaccord Genuity estimates

Figure 46: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	Jun '16
Custody	34,300	34,473	33,700	48,427	49,348	48,653	48,278	46,240**	44,817**
Growth	-	*1%*	*-2%*	*44%*	*2%*	*-1%*	*-1%*	*-4%*	*-3%*
Capacity	133%	131%	144%	144%	148%	152%	150%	145%	141%*

*Capacity estimate based on Jun. 2016 populations and 2015 capacity data
**Illinois changed methodology starting in 2015, which didn't include all populations. This may under-represent custody totals and resulting capacity
Note: Georgia Capacity excludes private facilities that may operate in the state
Source: Bureau of Justice Statistics, Illinois Department of Corrections

State comments

We begin Illinois with the caveat that starting in 2015 the DOC moved to a web-based offender tracking system. During the transition, some traditional population counts and other measures were not collected. As a result, we believe both custody totals and capacity measures may be under-represented in 2015 and the June 2016 measure. Regardless, Illinois is experiencing severe overcrowding at present, and lawmakers are well aware.

Criminal justice reform

- Populations are down roughly 9% since Governor Rauner took office roughly two years ago, but both he and the state continue to push for criminal justice reform.
- Alan Mills of Uptown People's Law Center in Chicago has used a series of lawsuits to push for reforms in the Illinois system but agreed that "the system would still be overcrowded if we had 35,000 people in it." http://qctimes.com/news/local/government-and-politics/illinois-prison-population-down-percent-under-rauner/article_e48dc152-d04e-5c6b-80b2-40d8b5846be8.html
- Other lawmakers continue to push for community-based programs and addiction treatment centers.
- The latest bill is SB 2872, which was passed on 1/9/17, which allows prisoners to complete programs to shorten sentences. (http://www.sfgate.com/news/article/The-Latest-Illinois-Senate-positions-budget-10845478.php)

Private opportunity for Illinois DOC business

- Illinois is severely overcrowded, but the state has begun enacting reforms to reduce the swelling population. The state is back to levels not seen since between 2009 and 2010, and that might mean no external growth is needed given the ability to sustain over-capacity for such a period.
- Despite recent reforms, the over-capacity must be addressed at some point. We continue to keep an eye on Illinois for both GEO and CXW as potential solution to Illinois' issue at hand.

Indiana

Figure 47: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Managed-Only	New Castle Correctional Facility	Indiana DOC	3,196	1/20	2.1%	0.8%
	Managed-Only	Heritage Trails (Plainfield STOP)	Indiana DOC	1,066	2/19	0.7%	0.3%
GEO Total				**4,262**		**2.8%**	**1.0%**
CXW	Managed-Only	Marion County Jail	Indiana DOC	1,030	12/17	0.6%	0.2%
CXW Total				**1,030**		**0.6%**	**0.2%**

Source: Company Reports, Canaccord Genuity estimates

Figure 48: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Custody	27,084	29,078	29,574	24,450	23,783	28,495	28,073	26,586	25,235
Growth	-	*7%*	*2%*	*-17%*	*-3%*	*20%*	*-1%*	*-5%*	*-5%*
Capacity	88%	83%	83%	80%	80%	92%	92%	89%	87%
New Castle (GEO) Custody								3,158	3,141
New Castle Growth									*-1%*
New Castle Capacity								97%	97%
Heritage Trails (GEO) Custody								851	688
Heritage Trails Growth									*-19%*
Heritage Trails Capacity								98%	79%

Note: Indiana Capacity includes private facilities that may operate in the state
Source: Bureau of Justice Statistics, Indiana Department of Corrections

Figure 49: Indiana per diems in 2015

Indiana Per Diems	2015
New Castle (GEO Managed)	47.62
Heritage Trail (GEO Managed)	44.08
Adult Institutions	51.41
Adult Camps	51.42
Adult Reentry	54.22
Adult Total	51.43

Source: Indiana Department of Corrections

State comments

Indiana saw a burst in populations back in 2013, but since then populations have slowly trended downward. Capacity today stands at about 87%. We note that New Castle and Heritage Trails are roughly maintaining capacity from 2015 to 2016. We note, however, that both facilities are managed-only and represent only a small portion of overall EBITDA contribution. In 2015, Indiana offered per diems for state-owned and managed facilities vs. use of private facilities. Private costs were cheaper than public adult institutions by an average 11%.

Criminal justice reform

- In 2015, the Indiana House passed an $80M criminal justice bill (HB1006) crafted to keep nonviolent offenders from relapsing to criminal behavior via mental health and substance abuse programs.
- In March of 2016, Gov. Mike Pence reinstated mandatory minimum prison terms for some drug crimes via HEA1235. This reinstated a 10-year mandatory minimum prison term for a person convicted of dealing meth or heroin who has a prior conviction for cocaine, meth or heroin dealing.

Private opportunity for Indiana DOC business

- Despite recent reforms, we don't see a lot of expansion opportunity in Indiana for CXW and GEO. We believe at present there might be a greater opportunity for community beds and alternative corrections, in-line with HB1006.

Kentucky

Figure 50: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO							
GEO Total				**0**		**0.0%**	**0.0%**
CXW	Owned - Correctional	Lee Adjustment Center	Idle	816	-	-	-
	Owned - Correctional	Marion Adjustment Center	Idle	826	-	-	-
	Owned - Correctional	Southeast Kentucky Correctional Facility	Idle	656	-	-	-
CXW Total				**2,298**		**0.0%**	**0.0%**

Source: Company Reports, Canaccord Genuity estimates

Figure 51: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Custody	13,708	14,057	14,237	11,951	12,186	12,141	12,114	11,959	11,932
Growth	-	*3%*	*1%*	*-16%*	*2%*	*0%*	*0%*	*-1%*	*0%*
Capacity	93%	89%	87%	87%	88%	88%	100%	83%	99%

Note: Kentucky Capacity includes private facilities, but none currently are operational in the state
Source: Bureau of Justice Statistics, Kentucky Department of Corrections

Figure 52: Additional Department of Corrections statistics

KY DOC Adult Institutions	2011	2012	2013
Blackburn Corr. Complex	56.01	52.94	59.49
Bell County Forestry Camp	40.32	39.55	45.68
Eastern KY Corr. Complex	46.11	44.96	46.61
Green River Correctional Complex	52.02	51.32	53.48
KY Correctional Inst. For Women	79.24	76.07	77.29
KY State Penitentiary	74.27	73.14	76.22
KY State Reformatory	77.74	81.02	77.50
Luther Luckett Corr. Complex	51.03	51.52	52.04
Little Sandy Corr. Complex	48.76	50.53	52.25
Northpoint Training Center	83.09	82.16	50.64
Roederer Correctional Complex	53.78	51.31	54.93
Western KY Corr. Complex	69.32	67.15	70.55
Total State Facility Average Cost	60.02	60.14	59.72
Private Prisons			
Marion Adjustment Center	47.21	43.98	46.11
Marion Medium	50.07	47.98	47.98
Marion Minimum	45.91	43.77	45.52
Otter Creek Corr. Complex	44.26	49.63	-
Private Prison Average	45.67	46.80	46.11

Source: Company Reports, Canaccord Genuity estimates

State comments

Starting in 2013, Kentucky curtailed the state's use of private prisons largely as a result of less need for beds. However, state prisons are now at capacity, and county jails are housing a record number of state inmates. Similar to Indiana, Kentucky releases some cost studies of private vs. government owned and operated

committees. Similar to Indiana, private beds came out well cheaper throughout 2011-2013, by an average of 23% each year.

Criminal justice reform

- In June 2016, Gov. Bevin announced a council on criminal justice reform to recommend reforms in the 2017 General Assembly.
- The scope, as defined by the council, includes:
  - Addressing the unsustainable, growing adult corrections populations
  - Options for revising and updating the Penal code
  - Proposing strategies for reducing recidivism
  - Reforms in probation and parole
  - Drug policy

Private opportunity for Kentucky DOC business

- Given the overcrowding that seems to be happening at the jail level, which is relieving pressure at the state level, we believe Kentucky is a growing opportunity, especially for CXW, which has three facilities idle there.
- The Marion and Lee Adjustment Centers combine for 1,642 beds. Justice and Public Safety Cabinet Secretary John Tilley mentioned that the facilities are being considered, and transition would be less difficult as the facilities are still being maintained. (http://www.courier-journal.com/story/news/crime/2016/06/24/kentucky-ponders-use-private-prisons/86341304/)
- Given the proximity to Tennessee, the existing idle facilities at Kentucky's disposal, and the recent press looking at those facilities specifically, we don't believe GEO would find pockets of opportunity

Louisiana

Figure 53: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Correctional	South Louisiana Correctional Center	Idle	1,000	-	-	-
	Owned - Correctional	J.B. Evans Correctional Center	Idle	388	-	-	-
	Leased	Caldwell Parish Detention Center	LA DOC	232	NA	0.3%	0.3%
	Managed-Only	Allen Correctional Center	LA DOC	1,576	6/20	1.0%	0.4%
GEO Total				**3,196**		**1.3%**	**0.7%**
CXW							
CXW Total				**0**		**0.0%**	**0.0%**

Source: Company Reports, Canaccord Genuity estimates

Figure 54: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Custody	20,857	20,720	20,333	18,844	18,601	18,794	18,710	18,447	18,676
Growth	-	*-1%*	*-2%*	*-7%*	*-1%*	*1%*	*0%*	*-1%*	*1%*
Capacity	114%	110%	108%	100%	99%	104%	103%	102%	103%*

*Capacity estimate based on year-end 2016 population estimates and 2015 capacity data
Note: Louisiana Capacity excludes private facilities that may operate in the state
Source: Bureau of Justice Statistics, Louisiana Department of Corrections

State comments

Populations have been stable over the past five years, after a modest period of shrinking populations. Capacity has been stable at about 103% in 2016, similar to the average of the prior three years.

Criminal justice reform

- DOC Secretary Jimmy LeBlanc had been rallying support for criminal justice overhaul throughout 2016, but is mostly currying favor amongst advocates, legislators, ministers, and law students who are already on board with plans to reduce Louisiana's prison population.
- Jimmy Leblanc has set a goal of reducing state prisoners by 5,000 inmates over the course of his first term and is expected to release his strategy in March, a month before the 2017 legislative session begins. (http://www.nola.com/politics/index.ssf/2016/11/louisiana_criminal_justice_ref.html)
- Sheriffs and district attorneys are skeptical that the DOC's plan and aggressive measures would be feasible, and both groups have a powerful lobby at the state capitol.

Private opportunity for Louisiana DOC business

- GEO acquired nearly all of its LA DOC footprint via the LCS acquisition, with the exception of the Allen Correctional managed-only contract.
- At present, GEO has one leased detention facility and manages one other correctional facility for the Louisiana DOC. Through the LCS acquisition, GEO acquired two idle facilities totaling 1,388 beds.
- With that being said, GEO has been public about discussing the potential for South Louisiana's 1000 beds to be used for ICE. While we won't rule that one out for the LA DOC, we believe only the 388-bed J.B Evans facility is potentially open to the LA DOC, which would be merely incremental.
- CXW does not presently have a footprint in Louisiana, but we wouldn't rule it out of community acquisitions in the face of potential criminal justice reforms.

Michigan/Vermont

Figure 55: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Correctional	North Lake Correctional Facility	VA DOC	1,748	6/17	0.6%	0.7%
GEO Total				**1,748**		**0.6%**	**0.7%**
CXW							
CXW Total				**0**		**0.0%**	**0.0%**

Source: Company Reports, Canaccord Genuity estimates

Figure 56: State custody, capacity, and growth

Michigan	2008	2009	2010	2011	2012	2013	2014	2015
Total Custody	50,462	50,435	45,281	42,904	43,594	43,704	43,359	42,628
Growth	-	*0%*	*-10%*	*-5%*	*2%*	*0%*	*-1%*	*-2%*
Capacity	97%	90%	102%	97%	97%	98%	97%	95%
Vermont	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Total Custody	1,732	1,613	1,613	1,531	1,530	1,579	1,548	1,509
Growth	-	*-7%*	*0%*	*-5%*	*0%*	*3%*	*-2%*	*-3%*
Capacity	80%	96%	94%	92%	91%	94%	92%	90%

Source: Bureau of Justice Statistics
Note: Both Michigan and Vermont Custody and Capacity excludes private facilities that may operate in the state

Michigan state comments

Michigan has seen relatively stable populations over the past five years and has operated around 97% capacity over that time frame.

Michigan criminal justice reform

- In June 2016, the Michigan Senate approved a 22-bill package designed to reform the state's criminal justice system via budget cuts and reforms aimed at reducing excessive prison time.

Vermont state comments

Vermont has also seen similar capacity levels ranging from 90 – 96% over the past seven years, while populations have been slightly down over that time frame.

Vermont criminal justice reform

- Vermont senator Cory Booker is a national leader for criminal justice reform, and many of his national proposals have already occurred in Vermont.

Private opportunity for Michigan/Vermont DOC business

- We combined Michigan and Vermont given that the Vermont DOC is currently contracting with GEO's North Lake facility in Baldwin, MI for 600 beds.
- The facility also has a contract with the Washington DOC for 1,000 beds, but those have gone unused.
- At the end of 2016, GEO announced intentions to move away from both Vermont and Washington given the underutilization. (https://vtdigger.org/2016/12/28/vermont-must-find-new-facility-state-prisoners/)
- Vermont DOC plans to continue discussions with GEO to find space for the roughly 300 prisoners the department has actually used at the facility, whether it be through contract amendment or another facility.
- Given Michigan DOC's outreach for capacity, we believe the state may look to North Lake as an option.
- We don't believe CXW has growth opportunities in either Vermont or Michigan.

Minnesota

Figure 57: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO							
GEO Total				**0**		**0.0%**	**0.0%**
CXW	Owned - Correctional	Prairie Correctional Facility	Idle	1,600	-	-	-
CXW Total				**1,600**		**0.0%**	**0.0%**

Source: Company Reports, Canaccord Genuity estimates

Figure 58: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	July '16
Total Custody	8,361	9,099	9,099	9,309	9,421	9,391	9,576	9,578	9,957
Growth	-	*9%*	*0%*	*2%*	*1%*	*0%*	*2%*	*0%*	*4%*
Capacity	101%	102%	103%	102%	104%	103%	101%	101%	105%*

*Capacity estimate based on July 2016 populations and 2015 capacity data
Note: Minnesota capacity excludes private facilities that may operate in the state
Source: Bureau of Justice Statistics, Minnesota Department of Corrections

State comments

Minnesota has been quietly over operational capacity since at least 2008, while populations have slowly climbed over the same time frame.

Criminal justice reform

- In 2017, Minnesota will partner with a criminal justice reform group to take part in a 21-month initiative focused on solitary confinement.
- There have been some minor drug reforms, but nothing outsized from what we've seen across other states.
- Recently, Gov. Dayton is asking the Legislature for $53 million for corrections, yet Dayton and other opponents of using private prisons have yet to offer a comprehensive alternative plan to significantly reduce the prison population.

Private opportunity for Minnesota DOC business

- In 2009, CXW's Prairie Correctional Facility in Appleton, MN, which previously housed offenders from the states of Minnesota and Washington, closed due to excess capacity in the states' systems.
- In March 2016, there was a bill to reopen this facility that passed through the Minnesota House, but Governor Mark Dayton vowed to veto the bill and eventually the bill missed a critical deadline in the state Senate. (http://www.startribune.com/pulse-check-bleak-outlook-for-private-prison-bill/375559291/)
- Recently there's been another push by Representative Cornish to lease the private facility. (http://www.startribune.com/legislators-again-tackle-the-contentious-issue-of-prison-overcrowding/410468935/)
- There's a chance that the bill might be revived, but we don't foresee a lot of progress with Governor Mark Dayton and Corrections Commissioner Tom Roy still in power.
- We don't believe GEO has opportunity in Minnesota for owned, community, managed, or youth.

Montana

Figure 59: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO							
GEO Total				**0**		**0.0%**	**0.0%**
CXW	Owned - Correctional	Crossroads Corectional Center	Montana DOC	664	6/17	0.4%	0.4%
CXW Total				**664**		**0.4%**	**0.4%**

Source: Company Reports, Canaccord Genuity estimates

Figure 60: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015
Total Custody	1,739	1,679	1,679	1,707	1,677	1,666	1,687	1,686
Growth	-	*-3%*	*0%*	*2%*	*-2%*	*-1%*	*1%*	*0%*
Capacity	93%	98%	97%	102%	101%	99%	101%	100%

Note: Montana capacity excludes private facilities that may operate in the state
Source: Bureau of Justice Statistics

State comments

Capacity has been at or above 100% over the past several years through 2015 and populations have been stable, as the Montana DOC has maintained its bed capacity over that time frame.

Criminal justice reform

- Montana has had little to no criminal justice reform over the past two years.
- Looking ahead, a criminal justice reform commission is looking at recommending roughly a dozen bills in the 2017 session, including sentencing reforms aimed at deferring low-risk, nonviolent drug offenders and helping the rehabilitation process.

Private opportunity for Montana DOC business

- We don't see a lot of external growth opportunity in Montana for either GEO or CXW.
- Many of the prisoners being housed at CXW's Crossroads facility are actually under the USMS jurisdiction.
- Furthermore, we don't believe CXW's Montana DOC Crossroads populations are at risk given recent trends, but also given that most of the facility is devoted to USMS. We believe the facility acts as a relief valve for the Montana DOC.

New Jersey

Figure 61: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Community	Newark Residential Reentry Center	NJ DOC	240	6/17	0.9%	1.1%
GEO Total				**240**		**0.9%**	**1.1%**
CXW							
CXW Total				**0**		**0.0%**	**0.0%**

Source: Company Reports, Canaccord Genuity estimates

Figure 62: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015
Total Custody	23,022	22,233	22,503	20,755	20,333	19,528	18,633	17,431
Growth	-	*-3%*	*1%*	*-8%*	*-2%*	*-4%*	*-5%*	*-6%*
Capacity	96%	95%	96%	96%	90%	85%	81%	75%

Note: New Jersey capacity excludes private facilities that may operate in the state
Source: Bureau of Justice Statistics

State comments

New Jersey has largely reduced populations within their system over the past five years through 2015. As such, capacity has fallen with it, amounting to 75% utilized as of 2015.

Criminal justice reform

- New Jersey has made significant changes to its criminal justice policy, highlighting prisoner re-entry programs, reducing crime, enhancing the efficiency of parole processes, flexibility in the sentencing of low-level drug offenders, and cutting back mass incarceration. Some have touted the state as a model for such changes.
- It is our belief that most criminal justice measures are already baked into the state at present.

Private opportunity for New Jersey DOC

- CXW does not have any external growth opportunities in New Jersey outside of community-based facilities, but we believe that may even be measured given GEO's presence.
- GEO currently owns a community-based facility in the state of New Jersey. Given low overall populations and capacity that is well in check, as well as a growing push to alternative corrections, we believe external growth opportunities, should they arise in New Jersey, will come in the form of more alternative programming.

New Mexico

Figure 63: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Correctional	Guadalupe County Correctional Facility	NM DOC	600	NA	0.8%	1.3%
	Owned - Correctional	Lea County Correctional Facility	NM DOC	1,200	12/18	1.7%	2.6%
	Managed-Only	Northeast New Mexico Detenton Facility	NM DOC	625	6/30	0.9%	0.3%
GEO Total				**2,425**		**3.4%**	**4.2%**
CXW	Owned - Correctional	Northwest New Mexico Correctional Center	NM DOC	596	6/20	0.4%	0.4%
CXW Total				**596**		**0.4%**	**0.4%**

Source: Company Reports, Canaccord Genuity estimates

Figure 64: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015
Total Custody	7,024	6,984	7,123	3,834	3,641	3,783	3,876	4,078
Growth	-	*-1%*	*2%*	*-46%*	*-5%*	*4%*	*2%*	*5%*
Capacity	48%	54%	53%	54%	51%	51%	50%	52%

Note: New Mexico capacity excludes private facilities that may operate in the state
Source: Bureau of Justice Statistics

State comments

New Mexico is a state we've had our eye on for a while. Capacity has been around 50% since the BJS' "Prisoner" series began back in 2008. We note that CXW and GEO have had facilities in the state for years, however, so we're not sure how reliable the BJS' statistics are in this regard, as the state has not pursued closing any of these as far as we know. As such, we believe relatively consistent numbers bode well in NM.

Criminal justice reform

- Unlike most states, in 2016, New Mexico criminal justice reform moved in a different direction, one that was amplifying laws that were tough on crime. (http://www.usnews.com/news/politics/articles/2016-01-25/new-mexico-weighs-anti-crime-laws-as-other-states-ditch-them)
- Nearly 20 pieces of proposed legislation aim to crack down on criminals and extend prison terms for violent career felons, repeat DWI offenders, parole jumpers and others. The proposals include a mandatory-minimum sentencing measure, expansion of the state's three-strikes law, making the targeted killing of a police officer a hate crime and a constitutional amendment to overhaul bail rules in New Mexico.

Private opportunity for New Mexico DOC business

- Despite a relatively low capacity year-in and year-out, CXW has maintained an outsized compensated occupancy at the facility since reporting the figures starting in 2Q13.

Figure 65: Northwest New Mexico Correctional Center compensated occupancy

	2013	2014	2015	3Q16
Northwest New Mexico Correctional Center	110%	121%	126%	121%

Source: Company Reports

- Similarly, GEO's Guadalupe County Correctional opened in 1999, while Lea County Correctional opened in 1998; both have been fully operational since. As such, even throughout BJS' low reported capacity measures, GEO has maintained operations during this period with little fanfare.
- We don't see external growth opportunity near-term within New Mexico.

Ohio

Figure 66: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Youth	Abraxas Ohio	Ohio DOC	100	NA	0.3%	0.1%
GEO Total				**100**		**0.3%**	**0.1%**
CXW	Owned - Correctional	Lake Erie Correctional Institution	Ohio DOC	1,798	6/32	0.9%	1.0%
CXW Total				**1,798**		**0.9%**	**1.0%**

Source: Company Reports, Canaccord Genuity estimates

Figure 67: State custody, capacity, and growth

	2009	2010	2011	2012	2013	2014	2015	2016
Total Custody	50,893	50,993	50,237	49,883	50,604	50,583	50,653	50,654
Growth	-	*0%*	*-1%*	*-1%*	*1%*	*0%*	*0%*	*0%*
Capacity	132%	133%	133%	130%	131%	131%	131%	131%

Note: Ohio custody and capacity includes private facilities that may operate in the state
Source: Ohio Department of Corrections

State comments

Ohio has seen very stable populations over the past seven years, and not much has changed moving into 2016, with 0% population growth over 2015, but capacity of roughly 131% compared to 132% back in 2009. The state has explored a variety of opportunities in the past, some of which involve private solutions. The state of Ohio sold the Lake Erie Correctional Institution to CXW for $72.7M back in 2011.

Criminal justice reform

- The ACLU of Ohio and the Ohio Justice and Policy Center introduced recommendations several times in 2016, but it doesn't seem that many recommendations were signed into law, if any.
- Similar to other states, Ohio is exploring the elimination of mandatory minimums and reclassifying low-level felonies.
- John Kasich's last material reform seemingly came in 2011, when he signed a bill that focused on rehab post-incarceration.

Private opportunity for Ohio DOC business

- Ohio has explored prison sales, privatization, and other forms of easing the pressure on the DOC's system, but by all measures it has been slow to act.
- House Bill 238 - Bill has passed and enrolled – Called for the sale process of North Central Correctional Institution in Marion (2,700 inmates roughly). This opportunity went quiet as the election neared, but we expect it may resurface, with both CXW and GEO actively pursuing it. CXW may have an edge considering it has completed a similar transaction with Ohio back in 2011.
- Beyond that, we see opportunities for both CXW and GEO for external growth down the pipeline. The state has completed such transactions in the past, and like we've seen with other states and federal agencies, the option of privatization often screens cheaper. We believe this will play into Ohio's decision should they look to relieve their consistent overcrowding.

Oklahoma

Figure 68: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Corrections	Lawton Correctional Facility	Oklahoma DOC	2,682	6/17	4.5%	5.5%
GEO Total				**2,682**		**4.5%**	**5.5%**
CXW	Owned - Correctional	Cimarron Correctional Facility	Oklahoma DOC	1,692	6/17	1.9%	2.0%
	Owned - Correctional	Davis Correctional Facility	Oklahoma DOC	1,670	6/17	1.8%	2.0%
	Owned - Correctional	Diamondback Correctional Facility	Idle	2,160	-	-	-
	Owned - Community	Carver Transitional Center	Oklahoma DOC	494	6/17	0.5%	0.8%
	Owned - Community	Tulsa Transitonal Center	Oklahoma DOC	390	6/17	0.4%	0.6%
	Owned - Community	Turley Residential Center	Oklahoma DOC	189	6/17	0.2%	0.3%
	Leased	North Fork Correctional Facility	Oklahoma DOC	2,400	7/21	2.6%	1.4%
CXW Total				**8,995**		**7.5%**	**7.2%**

Source: Company Reports, Canaccord Genuity estimates

Figure 69: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Custody	24,433	24,337	24,870	24,351	24,526	25,214	26,874	28,095	26,233
Growth	-	*0%*	*2%*	*-2%*	*1%*	*3%*	*7%*	*5%*	*-7%*
Capacity	94%	95%	95%	95%	99%	98%	103%	102%	102%

Note: Oklahoma custody and capacity includes private facilities that may operate in the state
Source: Oklahoma Department of Corrections

State comments

Oklahoma has seen populations surge over the past 8 years, though 2016 was down from 2015 after the state cut capacity at public facilities. Capacity remains elevated at 102%, up steadily since 2008. Most recently, CXW leased out a facility that previously housed out-of-state prisoners from California.

Criminal justice reform

- In November ’16, voters approved State Questions 780 and 781.
- State Question 780 will reclassify some criminal offenses, such as drug possession and property crimes, to misdemeanors instead of felonies.
- State Question 781 allows counties to use money that was saved from not sending offenders to prison to fund community rehabilitation programs.

Private opportunity for Oklahoma DOC business

- As is clear by the present stock of facilities, Oklahoma is very open to privatization, whether it be correctional or community.
- Given elevated capacity, we believe the Oklahoma DOC is still in the market for more bed space. We believe CXW’s Diamondback Correctional facility could be a nice solution for that; however, we note that recent criminal justice reform measures might not necessitate such a large contract.
- Given that Oklahoma is already invested in the community business via CXW and others (roughly 1,847 community beds total), we believe there could be opportunities to expand further. State Question 781 might make that even more realistic.
- We believe GEO could also be in the running for more beds on the community side, but don’t believe the company has a direct advantage for traditional corrections in-state.

Pennsylvania

Figure 70: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Youth	Abraxas Academy	PA DOC	214	NA	0.6%	0.3%
	Owned - Youth	Abraxas I	PA DOC	204	NA	0.6%	0.3%
	Owned - Youth	Abraxas Youth Center	PA DOC	72	NA	0.2%	0.1%
	Owned - Youth	Erie Residential Programs	PA DOC	30	NA	0.1%	0.0%
	Owned - Youth	Leadership Development Program	PA DOC	128	NA	0.4%	0.2%
GEO Total				**648**		**1.9%**	**0.9%**
CXW	Leased	Broad Street Residential Reentry Center	CEC	150	7/19	0.3%	0.3%
	Leased	Chester Residential Reentry Center	CEC	135	7/19	0.3%	0.2%
	Leased	Roth Hall Residential Reentry Center	CEC	160	7/19	0.3%	0.3%
	Leased	Walker Hall Residential Reentry Center	CEC	160	7/19	0.3%	0.3%
CXW Total				**605**		**1.2%**	**1.1%**

Source: Company Reports, Canaccord Genuity estimates

Figure 71: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Custody	43,298	43,584	43,837	48,515	49,009	49,735	48,538	48,241	48,767
Growth	-	*1%*	*1%*	*11%*	*1%*	*1%*	*-2%*	*-1%*	*1%*
Capacity	101%	114%	107%	100%	101%	104%	101%	100%	101%*

Note: Pennsylvania custody and capacity includes private facilities that may operate in the state
Source: Bureau of Justice Statistics, Pennsylvania Department of Corrections

State comments

Pennsylvania has used privatization for youth and community facilities, but has shied away from contracting with private companies for traditional corrections. This is modestly surprising considering that the system has seen consistent growth over the past 8 years, and that capacity has consistently been over 100% over that same time frame. Even more surprising is that Pennsylvania prison officials have said that they will close two prisons this year, citing a declining inmate population, the need to save money, and other factors. (http://www.wpxi.com/news/pennsylvania-to-close-2-prisons-as-inmate-population-drops/481927020).

Criminal justice reform

- In February 2016, Gov. Tom Wolf signed Senate Bill 166 into law, expanding criminal record sealing in order to reduce recidivism, relieve the pardon system, and provide ex-offenders greater opportunity to work.
- There has been little else in the way of actual reform, with only committees forming to find solutions to criminal justice reform.

Private opportunity for Pennsylvania DOC business

- If Pennsylvania is looking to close two prisons this year, they are likely not concerned with their current capacity. As such, we don't see additional traditional correctional facilities being developed and managed by either GEO or CXW in the near term.
- There may be opportunities for community facilities in light of Senate Bill 166 coming into effect. We believe CXW would be aggressive in pursuing these given the company's present footprint in the state.

Tennessee

Figure 72: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO							
GEO Total				**0**		**0.0%**	**0.0%**
CXW	Owned - Correctional	Trousdale Turner Correctional Center	Tennessee DOC	2,552	12/20	2.1%	2.5%
	Owned - Correctional	Whiteville Correctional Facility	Tennessee DOC	1,536	6/17	1.3%	1.4%
	Owned - Community	Shelby Training Center	Idle	200	-	-	-
	Managed-Only	Hardemann County Correctional Facility	Tennessee DOC	2,016	5/17	1.7%	0.6%
	Managed-Only	Metro-Davidson County Detention Facility	Tennessee DOC	1,348	1/20	1.1%	0.4%
	Managed-Only	Silverdale Facilities	Tennessee DOC	1,046	4/17	0.9%	0.3%
	Managed-Only	South Center Correctional Center	Tennessee DOC	1,676	6/18	1.4%	0.5%
CXW Total				**10,374**		**8.5%**	**5.7%**

Source: Company Reports, Canaccord Genuity estimates

Figure 73: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	Nov 16
Total Assigned Capacity	19,405	19,714	20,094	20,300	20,410	20,806	20,878	19,845	21,641
Growth	-	*2%*	*2%*	*1%*	*1%*	*2%*	*0%*	*-5%*	*9%*
Capacity	96%	96%	97%	97%	96%	93%	94%	93%	91%

Note: Pennsylvania custody and capacity includes private facilities that may operate in the state
Source: Tennessee Department of Corrections

State comments

Tennessee is home to CXW, so it is not surprising that the company has an anchor in the state and GEO is absent from participation. Populations in 2016 represented a large increase over 2015 figures,

Criminal justice reform

- In April 2016, the state Senate approved a measure that increased penalties for repeat DUI offenders and reduced the consequences for possessing small amounts of illegal drugs. (http://www.tennessean.com/story/news/politics/2016/04/04/changes-dui-drug-penalties-headed-haslam/82630022/)
- Following this, criminal justice reforms in Tennessee have been few and far between.

Private opportunity

- Hamilton County, TN PPP opportunity:
  - This RFP was quietly swept under the rug as the election took center stage, but we believe we will hear an announcement on it soon.
  - RFP includes 1,750 beds, comprised of 1,000 on a rebid of the Silverdale facility (managed-only facility by CXW), as well as construction of another roughly 750 beds.
  - We believe CXW is the front runner given existing infrastructure.
  - Bids were due September 30, 2016. A final decision didn't happen in '16.
  - Will be designed as a public private partnership, but the exact structure is unclear at this point (likely included as part of the RFP process).
- After CXW's development and activation of Trousdale, we don't see many opportunities on the traditional corrections end.
- We don't see any opportunities for GEO to find external growth in Tennessee.

Texas

Figure 74: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Owned - Community	Beaumont Transitional Treatment Center	Texas DOC	180	8/17	0.2%	0.3%
	Owned - Community	McCabe Center	Third Party	113	NA	0.1%	0.2%
	Owned - Community	Southeast Texas Transitional Center	Texas DOC	500	8/17	0.6%	0.9%
	Owned - Youth	Hector Garza Center	Texas DOC	139	NA	0.2%	0.1%
GEO Total				**932**		**1.1%**	**1.5%**
CXW	Managed-Only	Bartlett State Jail	Texas DOC	1,049	8/17	0.7%	0.2%
	Managed-Only	Bradshaw State Jail	Texas DOC	1,980	8/17	1.3%	0.5%
	Managed-Only	Lindsey State Jail	Texas DOC	1,031	8/17	0.7%	0.2%
	Managed-Only	Willacy State Jail	Texas DOC	1,069	8/17	0.7%	0.2%
	Owned - Community	Austin Transitional Center	Texas DOC	460	8/17	0.3%	0.3%
	Owned - Community	Corpus Christi Transitional Center	Texas DOC	160	8/17	0.1%	0.1%
	Owned - Community	Dallas Transitional Center	Texas DOC	300	8/17	0.2%	0.2%
	Owned - Community	El Paso Multi-Use Facility	Texas DOC	360	8/17	0.2%	0.2%
	Owned - Community	El Paso Transitional Center	Texas DOC	224	8/17	0.1%	0.2%
	Owned - Community	Fort Worth Transitional Center	Texas DOC	248	8/17	0.2%	0.2%
	Leased	Brideport Pre-Parole Transfer Facility	MTC	200	9/17	0.1%	0.1%
CXW Total				**7,081**		**4.5%**	**2.5%**

Source: Company Reports, Canaccord Genuity estimates

Figure 75: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015
Total Custody	160,371	163,306	163,381	141,353	136,578	140,839	139,879	138,199
Growth	-	*2%*	*0%*	*-13%*	*-3%*	*3%*	*-1%*	*-1%*
Capacity	85%	85%	86%	85%	82%	87%	88%	86%

Note: Pennsylvania custody and capacity includes private facilities that may operate in the state
Source: Bureau of Justice Statistics

State comments

Texas has found success in reducing the population from 2013 to 2015, while capacity has maintained a level in the high 80s. Likely unsurprising to most investors, privatization has played its fair hand in the provision of capacity, but perhaps more surprising to investors primarily in the alternative corrections businesses. We note that many CXW and GEO facilities located in the area are often devoted to criminal alien populations via BOP contracts or are traditional processing centers via ICE.

Criminal justice reform

- In 2010, Texas House Corrections Committee Chairman Jerry Madden devised a plan to invest $241M in drug courts which were aimed at diverting low-level, nonviolent offenders into treatment programs as an alternative to incarceration and funded rehabilitation programs to reduce prisoners' risk of recidivism.
- Since then there hasn't been much, but given present capacity levels and a declining population, there likely hasn't been much clamor for more.

Private opportunity

- GEO and CXW followed the money, and both companies have made solid investments in the community space, which Texas has been happy to use.
- We believe there might be more opportunity in the community space for both companies.
- We don't believe traditional correctional opportunities will arise given present capacity levels.

Virginia

Figure 76: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO	Managed-Only	Lawrenceville Correctional Center	VA DOC	1,536	3/17	1.1%	0.4%
GEO Total				**1,536**		**1.1%**	**0.4%**
CXW							
CXW Total				**0**		**0.0%**	**0.0%**

Source: Company Reports, Canaccord Genuity estimates

Figure 77: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Custody	33,250	32,178	32,921	28,962	28,149	28,431	28,480	30,430	29,979
Growth	*-*	*-3%*	*2%*	*-12%*	*-3%*	*1%*	*0%*	*7%*	*-1%*
Capacity	93%	91%	92%	90%	92%	90%	93%	103%	101%*

Note: Virginia custody and capacity includes private facilities that may operate in the state
Source: Bureau of Justice Statistics, Virginia Department of Corrections

State comments

Virginia populations jumped up heavily in 2015 before maintaining a similar level this year, while capacity is now over 100%.

Criminal justice reform

- On 1/3/17, Gov. Terry McAuliffe proposed a package of criminal justice reforms for the General Assembly that occurred on 1/11, though most of what is included has less to do with sentencing reform that would materially change prison populations. (https://www.washingtonpost.com/local/virginia-politics/mcauliffe-proposes-criminal-justice-reforms/2017/01/03/4810ef3a-d1eb-11e6-9cb0-54ab630851e8_story.html?utm_term=.8059a1d851d0)
- In 2015, after exploring the possibility of reinstating parole, the group that Governor McAuliffe had set up decided not to make the recommendation.
- Prior to this, there has not been much in the way of reform.

Private opportunity for Virginia DOC business

- We believe capacity will start bringing more attention on the criminal justice system in Virginia, but we don't necessarily believe external growth opportunities are on the horizon.

Wyoming

Figure 78: Company exposure

	Type	Facility Name	Status	Beds	Renewal Date	Est. % of Revenues	Est. % of EBITDA
GEO							
GEO Total				**0**		**0.0%**	**0.0%**
CXW	Owned - Community	Cheyenne Transitional Center	Wyoming DOC	116	6/17	0.1%	0.1%
CXW Total				**116**		**0.1%**	**0.1%**

Source: Company Reports, Canaccord Genuity estimates

Figure 79: State custody, capacity, and growth

	2008	2009	2010	2011	2012	2013	2014	2015
Total Custody	1,713	1,713	2,381	1,917	1,951	2,036	2,114	2,133
Growth	-	*0%*	*39%*	*-19%*	*2%*	*4%*	*4%*	*1%*
Capacity	75%	88%	79%	74%	81%	85%	88%	89%

Note: Wyoming custody and capacity excludes private facilities that may operate in the state
Source: Bureau of Justice Statistics

State comments

Wyoming has experienced consistent populations and capacity in the 8 years for which we have data. CXW acquired the Cheyenne Transitional Center through the Avalon acquisition.

Criminal justice reform

- In 2015, Wyoming lawmakers expanded eligibility for deferred prosecution for first-time drug offenders.
- In February 2016, Senate File 48 passed, allowing judges greater leeway in deciding what happens to first-time felony offenders as well as non-violent drug offenders and other parolees.
- Furthermore, the bill aims to provide various alternative sentencing options for those deemed less of a risk to society.

Private opportunity

- At the traditional corrections level, Wyoming populations look largely in check, and we don't believe the government will need to flex to private operators in the near- and medium-terms.
- With Senate File 48, there may be additional opportunities for community business, though we think those opportunities are fairly small.
- We believe CXW's foothold in Wyoming may give the company an advantage, but given that the facility was under Avalon's name, Wyoming could be open to other private operators as well.

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Investment Recommendation

Date and time of first dissemination: January 13, 2017, 04:57 ET

Date and time of production: January 13, 2017, 04:57 ET

Target Price / Valuation Methodology:

CoreCivic, Inc. - CXW

Our $30 year-end 2017 price target is based on our discounted cash flow analysis, which assumes a 9.0% cost of equity and 2.0% terminal growth. Our valuation implies a 14.4x 2017E Recurring AFFO multiple.

The GEO Group - GEO

Our $43 year-end 2017 price target is based on our discounted cash flow analysis, which assumes an 8.5% cost of equity and 2% terminal growth. Our valuation implies a 13.2x 2017E AFFO multiple.

Risks to achieving Target Price / Valuation:

CoreCivic, Inc. - CXW

1. Deterioration in per-diems and occupancy levels driven by increased levels of competitive supply or deteriorating demand would likely negatively impact valuation and investor sentiment.

2. Secondary offerings are possible and often result in earnings dilution as REITs must distribute 90% of taxable income to shareholders by law.

3. Expense pressure could cause NOI results to lag investor expectations.

4. Development delays or cost overruns could materially impact near-term investor expectations.

The GEO Group - GEO

1. Deterioration in per-diems and occupancy levels driven by increased levels of competitive supply or deteriorating demand would likely negatively impact valuation and investor sentiment.

2. Secondary offerings are possible and often result in earnings dilution as REITs must distribute 90% of taxable income to shareholders by law.

3. Expense pressure could cause NOI results to lag investor expectations.

4. Development delays or cost overruns could materially impact near-term investor expectations.

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Global Stock Ratings (as of 01/13/17)

Rating	Coverage Universe		IB Clients
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Hold	281	29.03%	17.44%
Sell	29	3.00%	20.69%
Speculative Buy	63	6.51%	73.02%
	968*	100.0%	

*Total includes stocks that are Under Review

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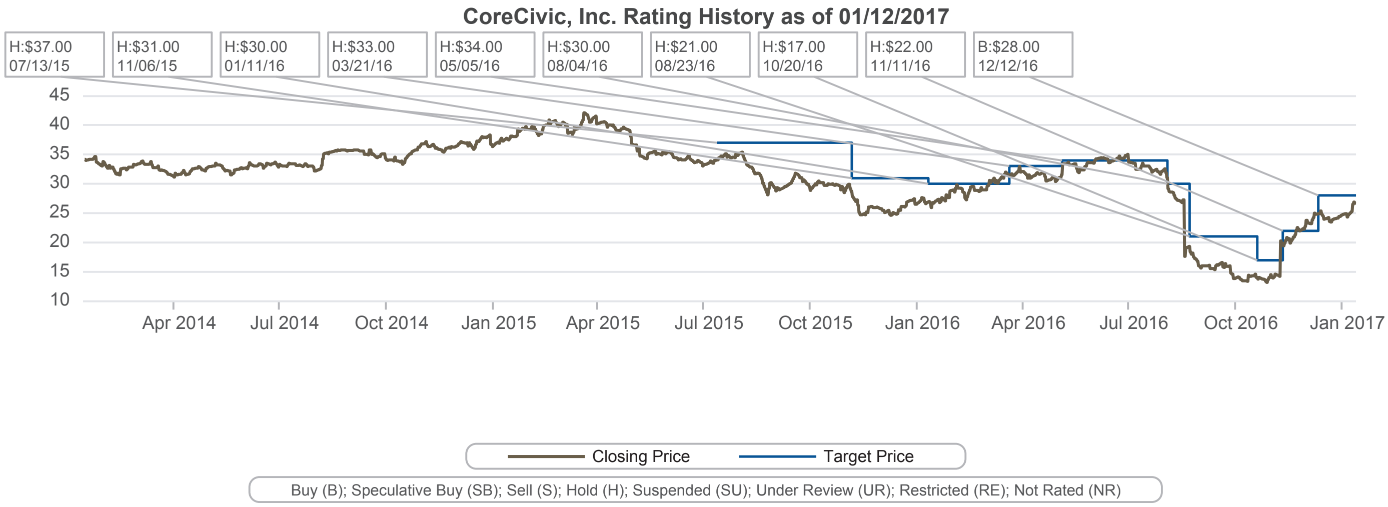
The GEO Group Rating History as of 01/12/2017



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